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CONDOMINIUM CONVERSIONS

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HEARING

BEFORE THE
SUBCOMMITTEE ON
HOUSING AND CONSUMER INTERESTS
OF THE
SELECT COMMITTEE ON AGING
HOUSE OF REPRESENTATIVES
NINETY-SIXTH CONGRESS
SECOND SESSION

MAY 15, 1980

Printed for the use of the Select Committee on Aging

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CONDOMINIUM CONVERSIONS

THURSDAY, MAY 15, 1980

U.S. House of Representatives,
Select Committee on Aging,
Subcommittee on Housing and Consumer Interests,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:22 a.m., in room 340, Cannon House Office Building, Hon. Edward R. Roybal (chairman of the subcommittee) presiding.

Members present: Representatives Roybal, of California, Oakar, of Ohio, Gudger, of North Carolina, Hammerschmidt, of Arkansas, and Hopkins, of Kentucky.

Staff present: Jorge J. Lambrinos, staff director, Elvira Castillo, research assistant, Maria Flores-Ysita, staff assistant, Patricia Lawrence, minority staff director, and Gail Jimerson, staff assistant.

OPENING STATEMENT OF CHAIRMAN EDWARD R. ROYBAL

Mr. Roybal. The hearing will now come to order.

Good morning, ladies, gentlemen, and subcommittee members.

Today, we are conducting a hearing on the issue of condominium conversions and the elderly. The purpose of this hearing is to generate testimony and explore possible recommendations to address the problems being faced by a significant number of elderly renters who are being displaced from their homes due to condominium conversions.

While condominiums are a relatively new form of property ownership in the country, their origins date back to ancient Babylonia. Documents unearthed there suggest that the owner of a two-story house sold the first floor to another family while retaining title to the second floor. This may have been the first condominium.

In the early 1970's, there was an extraordinary boom in condominium construction. The condominium market at that time was for a retirement or second home. However, with the escalating costs of land and construction, the conversion of rental apartments into condominiums has become very lucrative. These condominiums are now becoming the primary homes of many first-time buyers. Conservative estimates predict that, nationwide, 145,000 rental units will be converted into condominiums in 1980.

Historically, we have looked at housing for the elderly in terms of existing rental subsidy programs and public housing projects, but there are many older persons who live in privately owned rental buildings who today are caught in the condominium conversion phenomenon running rampant throughout this country. This hearing will focus on the housing situation of that segment of the elderly population.

READEX FICHE

Condominium conversion is a new phenomenon in the housing industry. The conversions of rental apartments into condominiums has far-reaching effects on all tenents. But more important, it has a greater impact on elderly tenants who have to face the possiblity of relocating in a housing market where rental units are often not available in the same community at a price they can afford.

We are here this morning to hear testimony of the effect of displacement and stress on the elderly associated with condominium conversions, and listen to recommendations on how we can deal with the problem. I hope this hearing will result in testimony focusing on "action" recommendations to be implemented before the situation becomes catastrophic, and thereby avoiding the consequences that are likely to ensue.

The first witness this morning is Michael Stegman, the Deputy Assistant Secretary for Policy and Research, HUD, located here in Washington, D.C.

Mr. Stegman, before your statement, I would like to recognize Mr. Hammerschmidt, the ranking member of the committee, for a statement which he would like to make.

STATEMENT OF REPRESENTATIVE JOHN PAUL HAMMERSCHMIDT

Mr. HAMMERSCHMIDT. The majority of our Nation's cities began to experience condominium conversion during the decade of the seventies, and although this trend has been temporarily dampened by high interest rates, we are told that it has not yet reached its peak. While the committees of jurisdiction have held hearings to examine the impact of condominium conversion on the country's urban population, the subcommittee believes the continued atmosphere of "condomania" compels us to focus on how the elderly are being affected. I want to thank the witnesses for being here to help us with this task.

I would like to say at the outset that conversions make an important contribution toward increasing opportunities for homeownership, expanding a city's tax base, and revitalizing deteriorating housing stock. Aside from increased city revenues, these are benefits which accrue to the more advantaged segment of our population. There are problems which conversions create which must be borne by the less advantaged of our population, the low income and elderly. The chief of these problems is displacement.

While there are no national data on displacement of the elderly, it is clear from looking at the statistics which are available that we are not talking about vast numbers of people. Only 15 to 20 percent of older people are renters, and a portion of this group is in subsidized housing. However, as conversion works its way through the housing stock, a greater number of older persons may be touched. As you mentioned, Mr. Chairman, developers are beginning to dip into the moderately priced and lower priced buildings, which are likely to house more elderly persons.

Regardless of the number of persons involved, the significance the elderly attach to home and community and the inconvenience and sometimes trauma an involuntary move may cause this group suggest that it is appropriate to single them out for special consideration in the displacement issue. As Dr. Pastalan may tell us, research indicates that while an involuntary move is sometimes an improvement for an older person, more often it is not. Even among the elderly who have sufficient money, the desire for familiar attachments and surroundings is strong. The elderly have a "life support system" made up of social ties and community resources which help them to remain stable and independent, and displacement upsets this balance.

There is a variety of approaches to softening the impact of displacement or avoiding it altogether which I am anxious to explore with the witnesses. In conclusion, let me say that I believe no single entity involved in the conversion issue should carry all the burden in assisting the elderly. Rather, there are resources which could come to bear on this dilemma from several directions—from local governments, which have increased property tax revenues and legislative remedies at their disposal; from State governments, which may also intervene with legislation; from the Federal Government, which has mechanisms for supplying rental housing and aiding individuals in purchasing housing; and finally, from developers who stand to make substantial profits from conversion and do sometimes have flexibility to make accommodations for the elderly.

Thank you, Mr. Chairman.

Mr. ROYBAL. Ms. Oakar.

STATEMENT OF REPRESENTATIVE MARY ROSE OAKAR

Ms. OAKAR. Thank you, Mr. Chairman.

First of all, I want to commend you for having this hearing. This is one of the most important issues that faces our country, I think, in the field of housing and it particularly relates to the elderly.

Mr. Chairman, I would like to submit my entire statement for the record.

[The prepared statement of Representative Mary Rose Oakar follows:]

PREPARED STATEMENT OF REPRESENTATIVE MARY ROSE OAKAR

Mr. Chairman and Members of the Subcommittee, I would like to thank you for the opportunity to testify at this timely and important hearing on Condominium Conversion and the Elderly. You are to be commended for your concern in this area and your initiative in holding this hearing.

As you may know, I am a member of the Special Task Force on Rental Housing, under the Subcommittee on Housing and Urban Development of the House Banking Committee. This task force has examined a number of the circumstances which have resulted in the current shortage of low and moderately priced rental housing, including the credit policies of the Federal Reserve Board resulting in record high interest rates on long-term debt, double-digit inflation, and local rent control initiatives, as well as the large scale conversion of existing rental properties to condominium and cooperative ownership.

For many elderly people living on fixed incomes, condominium conversion means displacement from homes they may have lived in for years and being thrust into an agonizingly tight, prohibitively expensive housing market. For them, it can be a disaster. Many inner-city areas populated by the elderly contain senior citizen centers which provide special services. Moreover, the elderly generally live in areas which are easily accessible to shopping, medical, and other necessary, basic services. To the extent that elderly people cannot relocate in areas equally close to these services, displacement due to conversion to condominiums will particularly affect them.

Displacement of the elderly has been cited as a problem in at least four studies, including a recent GAO report. Elderly households were reported to constitute a large portion of 65 households identified as displaced from Capitol Hill in Washington, D.C. Certain studies found the numbers of elderly declined during rehabilitation. Washington's Development Economics Group reported that 45 percent of households moving from apartment buildings undergoing condominium conversion were elderly. In Seattle, the impact of condominium conversion on the elderly was found to be considerable even though most of the units involved were high rent units. Of all forced moves in the Seattle study, 16 percent involved elderly persons.

The widespread conversion of rental units into condominiums over the last few years and the low levels of moderately priced new private construction have resulted in this Nation's lowest recorded rental housing vacancy rate. Hardest hit are the millions of renters with annual incomes of less than $10,000. The rental problem is so severe that it requires the immediate attention of an action by the Congress and the Administration.

One possible solution to the increasing problem of condominium conversion is the creation of more rental housing units. The Subcommittee on Housing and Urban Development of the House Banking Committee, of which I am a member, considered and approved a new rental housing initiative which would have provided 120,000 units of newly available rental units. This program is one creative approach to our goal of insuring decent housing for all Americans. The full Banking Committee reduced the program to only 40,000 units and gave it the status of a demonstration program. The Senate, however, approved the plan as originally conceived and I hope that the full House will have the opportunity to consider this new program in its entirety. We simply must come up with new and innovative methods for creating more housing units in this time of terrible inflation. We know that many of the elderly cannot afford to buy a home or keep up a mortgage. They need rental units and we must find ways to provide them.

Ms. **Oakar**. I am a member of a special task force on housing of the House Banking Committee. We have been into the problems of condo conversion and co-op conversion. There are at least four studies that relate to this issue, including the recent GAO study. Forty-five percent of the households moving from apartment buildings undergoing condominium conversion are elderly in Washington's development, according to Washington development economic report.

In Seattle and Milwaukee, which was the subject of a GAO report, it found that the majority of individuals or a high percentage of individuals who were displaced were older Americans.

The point really is that the older people in our country are the poorest people in our country and the trauma, let alone the inability for them to find decent housing once they have been dislocated, is a crisis situation for them. We have not in this country reconciled ourselves to that problem.

That is why I look forward to these hearings, and I hope this task force and this subcommittee will offer some legislation that is meaningful to correct this very, very difficult situation.

I know that the House subcommittee on the Banking Committee, of which I am also a member, stands ready to relate to this subcommittee on this very, very important issue.

Mr. **Roybal**. Thank you, Ms. Oakar.

We are going to try to limit the witnesses to 10 minutes due to the fact that the caucus is in session now and the House will start in about 30 minutes. We will no doubt have to go back and forth casting votes. In order to make the time, we hope the witnesses will confine their statements to 10 minutes.

Our first witness this morning is Mr. Michael Stegman.

STATEMENT OF MICHAEL A. STEGMAN, DEPUTY ASSISTANT SECRETARY FOR RESEARCH, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. STEGMAN. I would like to read an abbreviated part of the statement.

Mr. ROYBAL. Without objection, the text of your written statement will be included in the record at this point and then you can summarize, if you so desire.

[The prepared statement of Mr. Stegman follows:]

PREPARED STATEMENT OF MICHAEL A. STEGMAN

I would like to thank the Chairman for the opportunity to discuss the many ways in which the Department of Housing and Urban Development is addressing the issue of condominium and cooperative conversions. As we have indicated to the committee staff, the Department's congressionally mandated study of conversions, due by June 30, 1980, is well underway and on schedule.

However, as you can readily appreciate, because our study is not yet complete, it is not possible for me to provide this committee any hard data or conclusions at this time. When the study is available, however, we would be more than pleased to follow up today's testimony with additional materials on the nature and magnitude of the conversion process across the country and its impacts on families of all types, including the elderly.

(The report entitled "The Conversion of Rental Housing to Condominiums and Cooperatives," was subsequently received for the record, and can be found in Appendix 5, p.95.)

Before detailing for you the nature of the study and the kinds of information it will provide concerning elderly involvement in conversions, I would like to take a moment to place the conversion phenomenon in a braoder housing market perspective. That perspective is one of the current and anticipated longer term distressed state of the metropolitan multifamily rental market.

For a variety of reasons, much of this nation's multifamily rental housing stock is experiencing financial distress. This state of distress, it is important to recognize, precedes and extends beyond the current crisis caused by high interest rates. The abandonment of marginal buildings, the steady decline in the levels of production, and the increasing cost of private, uninsured, and unsubsidized rental mortgage funds, are the most visible signs of that distress. Condominium or cooperative conversions are yet another reflection of this much larger market condition.

Taken as a whole, rental properties are no longer seen by many as sound investments. The rents that can be obtained are often not sufficient to pay operating costs, maintenance, debt service, and allow a reasonable return on equity. Increasingly, even the tax shelter offered does not offset the low level of cash flow or limited capital gains potential from many properties. At the same time, rents have increased at a faster rate than tenants' incomes. Thus, many owners, particularly, of older lower income rental properties, are caught between two conflicting trends—dramatically increasing costs and lagging tenant incomes.

The nature of the rental investment environment has also deteriorated over the past fifteen years. Efforts to bring equilibrium to landlord-tenant relations are evidenced by the formation of housing courts, and a distinctly more active tenant role in the housing process. In response to spiraling prices, state and local governments are responding ever more frequently with rent controls. And in response to high levels of condominium conversions, in several markets across the country, many states and localities are also enacting conversion moratoria and related regulations to control this activity.

Many observers of the housing scene argue that in the long run these well intended efforts to protect tenants will contribute to the problem by further discouraging rental equity investments, thus curtailing new supply—an end they surely do not seek.

Another unintended contribution to the problem may be the very success of Federal tax incentives for homeowners, because the availability of a tax-subsidized ownership alternative tends of depress the rents rental properties can command, regardless of operating costs. With the inflation of incomes into higher marginal tax brackets, many otherwise long-term renters will seek that advantages of tax shelter offered through home ownership. Thus the median real income of renters has declined over the years, causing rental housing supplies to shelter an increasingly lower income population without the income to adequately support rising maintenance and operating costs.

Of course there are exceptions to the above scenario; some regional markets are still healthy; some segments of the market still project a satisfactory return on investment. But for a growing number of rental properties, the owners are confronting limited liquidity options. To such owners, conversions appear to be the only means to recover their investment.

The Department of Housing and Urban Development recognizes that a high rate of condominium and cooperative conversion activity throughout the country creates expanded home ownership opportunities to the American population. Conversions often provide a less expensive home ownership alternative than the traditional single family home—the cost of which has increased dramatically in the past decade. Conversions are particularly attractive to smaller households, including young singles and couples who are first time home buyers and older homeowners who are trading down for less space and fewer ownership responsibilities.

At the same time, however, the Department is also aware that high levels of conversion activity in select localities, combined with abandonment and low levels of new rental construction, may contribute to a net reduction in the supply of available multifamily rental housing; though, it must be said, the magnitude of such a contribution remains unknown. To the extent that conversion activity involves properties housing lower and moderate income families who are unable, because of income limitations or for other reasons, to acquire units in their converted buildings, conversions may also lead directly to a deterioration in their housing circumstances. This is especially true when there are few available alternatives at affordable rents within impacted markets. In addition, because the bulk of conversion activity thus far appears to be concentrated in middle to higher income buildings, there is evidence that these negative impacts also affect middle income renters who, when faced with conversion, are unwilling or unable to purchase their units. In particular, downpayment requirements and monthly cash costs can be beyond the reach of many of these households. This has been particularly true of elderly renters who have available limited housing resources.

In response to the recent rise in conversion activity and the controversy surrounding it, a 1979 amendment to the Housing and Community Development Act directed HUD to conduct a rapid turn-around study of conversions and to deliver it to Congress within six months. Specifically HUD was directed to:

1. Estimate the number of conversions which have occurred since 1970;
2. Project the number estimated to occur from 1980 through 1985;
3. Assess the impact conversions have or are likely to have on the availability of housing for lower income persons;
4. Assess the extent to which conversions are concentrated in certain areas or types of areas of the country; and
5. Assess the factors contributing to the increase in conversion activity.

Recognizing the policy and program importance of this work and the necessity to gather and analyze accurate and representative data, the Department is carrying out a multi-faceted, national study which is comprised of the following major elements:

1. Comprehensive field work in 37 metropolitan areas (SMSAs) that represent over 75 percent of all estimated conversion activity that has occurred nationwide since 1977. This field work included interviews with local officials, tenant groups landlords, developers, bankers and other knowledgeable persons.
2. A household survey in 12 SMSAs which have relatively high amounts of conversions. These 12 metropolitan areas account for more than half of all estimated conversion activity nationwide since 1977. This survey included over 850 households residing in a representative sample of converted units and 300 outmovers—or, households who resided in rental buildings that were converted, but as a result of the conversion moved out of the building rather than purchase a unit or rent from a new owner.
3. A nationwide telephone survey of local officials in a sample of 442 cities and counties. These elected officials were asked to provide their perceptions of the benefits and disadvantages of conversions in their locality, and state their policy preferences with regard to possible conversion regulations by local, state or federal governments.

4. A comprehensive legal survey of existing state and local conversion regulations.

The extensive field work, surveying, and data collection effort has been largely completed. We are now in the process of analyzing this wealth of information and writing up the results.

As I indicated at the outset of my statement, because we have not yet analyzed much of the study data, I cannot provide you today with any substantial results or numbers concerning conversions and the problems they may pose to elderly renters. For this hearing, however, I was able to determine from our study that the elderly do, indeed, represent a significant portion of the metropolitan population affected by conversions. For a typical building that is converted, 21 percent of those who purchase a unit are 55 years or older. As you know, some units in rental buildings converted to condominiums continue to be operated as rentals after conversion. Of all persons who rent converted units, 26 percent are aged 55 or over. Finally, of those persons who do not remain in the building after conversion and who relocate, 37 percent are 55 years of age or older.

By the time our study is completed, we will know much more about conversions and the elderly. For both the buyers of converted units and those not buying, we will be able to profile population groups involved in the conversion process by age, income, race, size of family, life cycle, and employment. We will know who bought, who did not, and the reasons why. The study will also be able to tell us where those who move out of a converted building go, what their new housing is like, and how much it cost. In addition, the study will assess the impact of conversions on the local tax base, neighborhoods, and the rental housing market generally. Finally, the report will document the type and extent of state and local regulations of conversions which are already in force. This will include those measures, if any, specifically designed to protect the elderly.

While awaiting the definitive results of this study, HUD has not ignored the conversion issue. The Department has undertaken, or is about to initiate, a number of demonstrations designed to mitigate the negative effects of conversion and provide means whereby low and moderate income persons, including the elderly, may become active participants in the conversion process.

Last November, HUD awarded twelve Innovative Project Grants totalling $11.4 million to localities working to solve the problems of persons displaced by private urban revitalization activities. Eight of these projects totaling $7.7 million are specifically designed to either address the needs of tenants being displaced by conversions or provide a cooperative ownership solution for residents displaced by neighborhood revitalization activities.

Several of these locally designed strategies are targeted specifically towards the special needs of the elderly. In Kings County (Seattle), Washington the county government will use Innovative Grant funds in tandem with conventional loan monies to purchase condominium units for rental to low income elderly persons threatened by conversion—induced displacement. In Brookline, Massachusetts the grant will be used to provide low income renters, whose buildings are being converted, with downpayment assistance. Equity assistance will be determined on a sliding scale based on what is required to bring the household's monthly payments in line with the 25 percent-of-income standard. The assistance will be secured by a lien on the unit to be recovered upon resale. And here in Washington, D.C., low income tenants are being assisted, through a variety of financing mechanisms, to exercise their "first right to purchase" option provided under local law. Together, these Innovative Grant projects will serve as models for other localities across the country that are experiencing high levels of conversion activity.

In New York City, HUD's Office of Policy Development and Research has two demonstrations underway to provide low income families ownership opportunities while rehabilitating abandoned apartments from the massive inventory of city-owned multifamily buildings. Started in 1977, the Multifamily Sweat Equity Homesteading Demonstration combines the volunteer labor of tenant-owners with CETA job training funds and HUD's Section 312 Rehabilitation Loan program monies to substantially rehabilitate abandoned tenements. After rehabilitation, the buildings are owned by tenant organizations and operated as cooperatives. This pilot project has been expanded by HUD's Office of Community Planning and Development to six additional cities where the concept of self-help housing has been adapted to local needs and conditions.

Also in New York City, PD&R initiated last fall the Co-ops for Neighborhoods Demonstration. Implemented pursuant to Section 510 of the 1978 Housing and Community Development Act, which directed HUD to conduct demonstrations testing the feasibility of multifamily low income home ownership, this project combines the use of Section 8, tax syndication proceeds, and local CDBG funds to rehabilitate and convert deteriorating buildings to standard cooperative housing. By addressing multiple buildings simultaneously, this project is expected to provide the benefits of home ownership to low income residents while significantly upgrading the blocks and neighborhoods on which they live.

Finally, HUD is developing a new demonstration, to be commenced in the near future, to encourage the preservation of the existing, conventionally-financed, multifamily housing stock for use by low and moderate income families. An unknown portion of this stock is currently under pressure for conversion to condominium or cooperative ownership, which can lead to the displacement of low and moderate income families. A principal element of the demonstration will be the extended use of Section 223(f) to refinance existing buildings without the substantial rehabilitation required under other authorities. Up to now 223(f) has only been used with the Section 207 Multifamily Rental Housing Program. The domonstration plans to use Section 223(f) pursuant to 221(d)(3) and 221(d)(4) insuring authorities, and for low and moderate income tenant cooperatives and condominiums.

In addition to Section 223(f), we will be exploring avenues in which other HUD assistance programs, such as Section 8, Section 235, and Tandem may be used to further the needs of particular families in the demonstration, and to establish models for future replication.

The Department intends to monitor and evaluate the demonstration projects over time in order to learn more about the effectiveness of different financing plans; the costs of conversions and how they vary according to conversion mechanisms employed; and, the relative cost-effectiveness of cooperative versus condominium conversions, including their respective federal tax implications. HUD wishes to determine what obstacles exist which prevent greater tenant participation in both the conversion process and the purchasing of their units. These obstacles may include the cost and availability of mortgage financing, the costs of ownership, organizational development, or the lack of available technical assistance.

In addition to carrying out these demonstration projects, the Department is now in the process of reassessing its policies with respect to condominium and cooperative conversions. While it is expected that a comprehensive policy on conversions will be approved by the Secretary in the near future, it is possible to detail for the Committee at this time HUD's existing policies with respect its own unsubsidized and subsidized programs.

First, with respect to presently insured unsubsidized multifamily rental projects, a mortgagor cannot undertake a conversion without first gaining HUD approval and prepaying in full the outstanding FHA mortgage. Once prepayment is made, HUD's regulatory agreement is cancelled and the mortgagor is free to convert. If an existing mortgagor wishes to sell to a second party for the purposes of conversion and that party wishes to assume the existing FHA insured mortgage because of its favorable terms, or otherwise requests from HUD more generous financing or related assistance not routinely available, the Department can, of course, discourage the conversion through the denial of such requests. Present policy is not to encourage such conversions, although requests to the Department involving mortgage assumptions and the like are treated on a case by case basis.

In terms of the HUD-owned inventory, HUD's policy is to prevent the displacement of low and moderate income tenants. Both previously subsidized and unsubsidized HUD-owned properties, which contain low and moderate income tenants, are sold out of portfolio with long term Section 8 housing assistance commitments attached to them. Thus, conversion of these properties to condominium or cooperatives for occupancy by the non-poor is not permitted. To the extent that the vast majority of low and moderate income occupants of a HUD-owned property are interested in converting it to a cooperative, the Department will explore this possibility with them.

For previously unsubsidized properties which contain no Section 8-eligible tenants, HUD's present disposition practice is not to limit the sale of the property to only those investors who promise to keep the building as a rental property. In this case, conversion is possible, but no low and moderate income families would be adversely affected by such action.

However, I would like to make it clear that even in the case where no low and moderate families are directly involved and net returns to the FHA insurance fund would be maximised by selling a well located HUD-owned property without any restrictions concerning conversion, if local rental market conditions are extremely tight, the Department will require the continued use of the property as rental housing. Decisions regarding whether any restrictions as to future use of an unsubsidized property are to be imposed at time of sale are made on a case by case basis with local market conditions playing an important role in these determinations.

In closing, I would like to thank the Committee for this opportunity to discuss the Department's many activities which relate to the conversion of rental properties to condominium or cooperative ownership. I believe that the work in which we are currently involved relating to conversions promises to have substantial policy and program significance. As I indicated in my opening remarks, the Department would be pleased to testify once again before this committee after completion of our national study on conversions to discuss its full implications for elderly renters as well as for HUD policy.

I would be pleased to answer any questions the Committee may have.

Mr. STEGMAN. I would like to thank the committee for the opportunity to discuss the many ways in which the Department of Housing and Urban Development is addressing the issue of condominium and cooperative conversions. As we have indicated to the committee staff, the Department's congressionally mandated study on conversions, due by June 30, 1980, is well under and on schedule.

Before responding to any questions the committee may have, I would like to take a moment to place the conversion phenomenon in a broader housing market perspective. That perspective is one of the current and anticipated longer term distressed state of the metropolitan multifamily rental market.

For a variety of reasons, much of this Nation's multifamily rental housing stock is experiencing financial distress. This state of distress, it is important to recognize, precedes and extends beyond the current crisis caused by high interest rates. The abandonment of marginal buildings, the steady decline in the levels of production, and the increasing cost of private, uninsured, and unsubsidized rental mortgage funds, are the most visible signs of that distress. Condominiums or cooperative conversions are yet another reflection of this much larger market condition.

Taken as a whole, rental properties are no longer seen by many as sound investments. The rents that can be obtained are often not sufficient to pay operating costs, maintenance, debt service, and allow a reasonable return on equity. Increasingly, even the tax shelter offered does not offset the low level of cash flow or limited capital gains potential from many properties. At the same time, rents have increased at a faster rate than tenants' incomes. Thus, many owners, particularly of older, lower income rental properties, are caught between two conflicting trends—dramatically increasing costs and lagging tenant incomes.

Of course, there are exceptions. Some regional markets are still healthy, and some segments of the market will project a satisfactory return of investment. But for a growing number of rental properties, the owners are confronting limited liquidity options. To such owners, conversions appear to be the only means to recover their investment.

At the same time, however, the Department is also aware that high levels of conversion activity in select localities, combined with abandonment and low levels of new rental construction, may contribute to a net reduction in the supply of available multifamily rental housing; though it must be said the magnitude of such a contribution remains unknown. To the extent the conversion activity involves properties housing lower and moderate income families who are unable, because of income limitations or for other reasons, to acquire units in their converted buildings, conversions may also lead directly to deterioration in their housing circumstances. This is especially true when there are few available alternatives at affordable rents within impacted markets.

In addition, because the bulk of conversion activity thus far appears to be concentrated in middle to higher income buildings, there is evidence that these negative impacts also affect middle-income renters who, when faced with conversion, are unwilling or unable to purchase their units. In particular, downpayment requirements and monthly cash costs can be beyond the reach of many of these households. This has been particularly true of elderly renters who have available limited housing resources.

As I indicated at the outset of my statement, because we have not yet analyzed much of the study data, I cannot provide you today with any substantial results or numbers concerning conversions and the problems they may pose to elderly renters. For this hearing, however, I was able to determine from our study that the elderly do, indeed, represent a significant portion of the metropolitan population affected by conversions. For a typical building that is converted, 21 percent of those who purchase a unit are 55 years or older. Finally, of those persons who do not remain in the building after conversion and who relocate, 37 percent are 55 years of age or older.

While awaiting the definitive results of this study, HUD has not ignored the conversion issue. The Department is about to initiate a number of demonstrations designed to mitigate the negative effects of conversion and provide means whereby low- and moderate-income persons, including the elderly, may become active participants in the conversion process.

Last November, HUD awarded 12 innovative project grants totaling $11.4 million to localities working to solve the problems of persons displaced by private urban revitalization activities. Eight of these projects totaling $7.7 million are specifically designed to either address the needs of tenants being displaced by conversions or provide a cooperative ownership solution for residents displaced by neighborhood revitalization activities.

HUD is also developing a new demonstration, to be commenced in the near future, to encourage the preservation of the existing, conventionally financed, multifamily housing stock for use by low- and moderate-income families.

In addition to carrying out these demonstration projects, the Department is now in the process of reassessing its policies with respect to condominium and cooperative conversions. While it is expected that a comprehensive policy on conversions will be approved by the Secretary in the near future, it is possible to detail for the committee at this time HUD's existing policies with respect to its own unsubsidized and subsidized programs.

Mr. Chairman, I will be glad to discuss those existing policies during the question-and-answer period.

I will conclude at this point, Mr. Chairman, to save time for questions and answers.

Mr. ROYBAL. Thank you very much.

I have a question that has been bothering me for a long time. How does rent control affect condominiums?

Mr. STEGMAN. As I indicated in my statement, Mr. Chairman, it is our view that a variety of controls on the housing stock make it more difficult to maintain housing at adequate levels of maintenance. Concern about the long-term viability of maintaining multifamily housing for rental use in turn causes supply constraints, because suppliers do not want to risk equity capital.

To the extent that rent control is a real cause of concern to suppliers and to the extent the presence or the potential of rent control depresses the prices or the values of rental buildings, conversions may be a result.

Mr. Roybal. In the area where there is rent control and in the event there is conversion, does a new rent ceiling apply to that new conversion?

Mr. Stegman. First off, the phenomenon of conversions is not limited to those housing markets in which there are rent control ordinances and enabling legislation at the State level.

To the extent that a multifamily property is converted to condominiums and the owner of an individual apartment in that converted building chooses to then rent the unit, it is my understanding that in most cases the unit would not be subject to controls. It depends on the local legislation.

New York City, for example, and New York State may be different. I am not sure.

Mr. Roybal. I asked that question because it is my understanding that in Seattle there is a demonstration project that allows the housing authority to purchase condominiums and then rent them to elderly persons. Once those condominiums are rented after being purchased by the housing authority or purchased by any individual, does rent control then prevail, or does a new rate go into effect?

Mr. Stegman. It is my understanding that in the King County, Seattle situation, we would be talking about renting on a subsidized basis to the low-income population after the units are purchased on the open market. In this case, because the renters are subsidized, rent control is not an issue. But we can try to find out the specific answer to that question for the record. I do not know the answer to that.

[The following information was received from Mr. Stegman:]

In Seattle, Wash. the public housing authority is undertaking a demonstration project where it purchases condominiums on the open market and then rents the unit to elderly persons. Are these rents then controlled?

First of all Seattle does not have rent control in effect. Beyond that the units' mortgage payments are subsidized through an upfront capital writedown grant which reduces the monthly rent to an amount affordable to the target population ($200–$250/monthly and $10,000 annual incomes). In addition Section 8 Housing Assistance is available for those unable to afford the reduced rent. In sum, through a series of subsidy mechanisms, rents are reduced to an amount affordable by the elderly. Rent controls are not in effect in Seattle, nor are they applied in the demonstration context.

Mr. Roybal. Ms. Oakar.

Ms. Oakar. Thank you, Mr. Chairman.

Mr. Stegman, can you tell me if HUD at any time has sold any of its property that is subsidized or in any way allows, I should say, any of its subsidized housing for condo conversion?

Mr. Stegman. I spoke with the Office of Housing in preparing for the hearings this morning, and I have with me Larry Dale who is the Deputy Assistant Secretary for Multifamily Housing who can participate in this.

But in talking with the Office of Housing it is clear to me that, over the last couple of years, from the standpoint of selling off its own inventory—we are now talking about HUD-owned property that was previously subsidized or which they have currently, whether previously subsidized or not—if the project currently has low or moderate income occupants, they are being sold out of portfolio with section 8 low-income housing assistance commitments attached to them. In no way are they involved in the conversion process.

Whether over the years past projects have been sold for conversions, I don't know, but conversions are not a phenomenon that goes back many years, so my feeling is no.

Ms. OAKAR. Let me say for the benefit of this subcommittee that I think that would be important information for the record.

Mr. STEGMAN. I can say categorically from the standpoint of previously subsidized or nonsubsidized properties which currently have low-moderate or low-income residents, that it is not the case at all. They are sold as low and moderate income units with section 8 assistance.

Ms. OAKAR. I am told that this Nation today has the lowest reported rental housing vacancy rate at any time in recent history.

You deal with another segment of HUD, and I think some of the other individuals who have appeared before the Housing Subcommittee in the Banking Committee have a new plan which would maximize the number of rental units, but it would provide for a ceiling for middle income people also so that they, in effect, would be subsidized by this new HUD plan. They don't call it a HUD plan, but we all understand it is the HUD plan. I am wondering what your perspective is on that in view of the fact that in your testimony you cited lower income and middle income people being hard hit by the condo conversion.

Mr. STEGMAN. I cannot comment on the specifics of the plan, but it is clearly a response to the general supply concerns for the tightness of rental housing markets in a number of major communities.

It is the case that the program reflects the assumption that reasonably priced mortgage capital will dramatically increase the amount of new supply. As you are aware, the subsidy basically built into that proposal is intended to bring down the mortgage interest rate. The presumption there is that it is a credit crunch which is causing the restrictions in rental housing construction that the GAO, and other committees that have looked at this problem has indicated.

In part, the problem I am talking about in my statement runs to older properties as well as to operating constraints. It talks about the long-term view of lagging tenant incomes and operating cost increases that are also causing substantial problems at the lower end of the scale. This is where existing section 8 and other kinds of assistance to this portion of the stock is equally important.

Ms. OAKAR. That is why some people feel the new plan really does take away from the poor. I am just being the devil's advocate here. While you are increasing the units for the people who make upward of $30,000, because it is 150 percent of the mean income, and in my State at least that would be $30,000. It is really depriving the lower income people of their proportionate share of needed housing.

Mr. STEGMAN. I understand your point.

I also believe that part of the plan is to increase the support of existing housing in exchange for a reduction in new construction of the deeply subsidized. The point being that the number of lower income people who would be assisted within a given budget authority would not be reduced. To the extent that it would be converting low-income new construction for a greater share of existing property, your are correct.

Ms. **Oakar.** Let me say in conclusion of this questioning, I really feel we don't have to study the problem any longer. There are four or five studies including the GAO report, and I know you are winding down your study. But I think HUD demonstration projects, notwithstanding, affects very few people as we all understand. They are very effective for those communities that are lucky enough to get them. But I think HUD has to address this problem in a very comprehensive manner, and I don't really feel that HUD has done this.

I was surprised, for example, to learn when we recently marked up the housing bill and that there wasn't a word, there wasn't anything in that housing bill about condo conversion and the impact on low-income people and particularly the older Americans. So, I think we had better get going.

Mr. **Stegman.** You are aware that we have been talking about making the section 235 program available for replacement housing and for purchase of existing units for families who are displaced.

Ms. **Oakar.** I would like to see HUD set up some guidelines even though it may not involve subsidized housing. You are the authority on housing of this country. You give us visions for plans for better housing for all Americans. It would seem to me you could make some very public statements, if not regulations, about what would be done when people are literally thrown out on the street. That is what we are talking about.

Mr. **Stegman.** I understand your concern. I think when our stay is finished, and we are talking about delivery of our study to the Congress at the end of June, for the first time we will really be able to take a national perspective on this issue.

As you are aware, HUD is not directly involved in the conversion process and the phenomenon you are talking about. We are talking overwhelmingly about the privately financed private stock. The role that the Federal Government should take in regulating that process and directing it is a very, very serious issue; and, for the first time, I think the Secretary will have before him, in addition to all the other case studies and information that have been presented thus far, the basis for a decision.

Ms. **Oakar.** Every community that gets community block grant money has to have a housing plan.

Mr. **Stegman.** That is correct.

Ms. **Oakar.** Those cities are literally allowing poor people or moderate- to low-income people to be relocated on a wholesale basis. If they are doing that, they should not be eligible for a grant.

Mr. **Stegman.** Part of the assistance is for local communities to assess the extent to which condominium conversions are having an adverse impact on their residents and provide means for dealing with the problem at the local level.

Ms. **Oakar.** Thank you for your indulgence.

Mr. **Roybal.** Thank you, Mr. Stegman.

Our next witness is Mr. George Grier, consultant, the Grier Partnership.

STATEMENT OF GEORGE GRIER, CONSULTANT, THE GRIER PARTNERSHIP, BETHESDA, MD.

Mr. Grier. Thank you, Mr. Chairman.

I have looked at various aspects of these problems. I have done a number of studies of the elderly and a couple of studies of displacement itself. One was made under the sponsorship of the Secretary of HUD and one is now underway under the sponsorship of the Ford Foundation.

I have also looked at the housing market locally and nationally. I have recently completed an analysis relating to the elderly population in the United States which was done as part of the early planning for the White House Conference.

So I have looked at this problem in a number of connections and from a number of viewpoints.

I will try to summarize a number of points briefly and then I will have a fuller written statement for the committee.

When older people are forced out of their home for any reason, the impact can be traumatic. One of the earliest and still one of the best examinations of the personal pain displacement can cause older people was made a couple of decades ago by a man by the name of Marc Fried in the West End of Boston. Mostly these people were of ethnic minorities. Hundreds were displaced. This was not a pleasant neighborhood. It was a slum. Some felt no loss at all but nearly half of the 250 women interviewed by Fried and his staff, 46 percent, reported periods of sadness or depression that lasted from 6 months to more than 2 years. About 38 percent of the men had similar reactions.

Now, Fried, who is a psychiatrist, likened their reaction to the kind of reaction when one loses a close friend or relative. He calls it "grieving for a lost home". Here are some of the things they said:

> I felt as though I lost everything.
> I felt like my heart was taken out of me.
> I lost all the friends I knew.
> I felt like taking the gaspipe.
> I threw up a lot.
> I had a nervous breakdown.

These were people who survived to be interviewed. Some had died before the study was done. We don't know why they died, but with the elderly severe grief can sometimes lead to death. I don't wish to overdramatize this point, but displacement is perhaps one of the worst things a person can do to elderly people.

Condominium conversions have displaced many who have occupied their apartments for decades. I have seen no study as intensive as Fried's although perhaps. Dr. Pastalan will be reporting on something similar later today.

But if there were such evidence, and there may be by this point, I believe that the reactions of these older people would be quite similar.

The 1978 study by the Development Economics Group of nonpurchasing tenants in the District of Columbia, which means condominium displacees, reported this in fairly strong terms. It showed that 49 percent of the households displaced, of all ages, required 2 months or more to locate new housing. And in all, 30 percent of the displaced households were elderly. This is a substantial proportion, but since the number of rental units converted each year is limited, the actual number of elderly people involved are not great. Nonetheless, they face a serious problem. We can imagine how these elderly people felt—elderly displacees—when they found that it took 2 months or more for them to find a place to live. At today's prices, some never will be able to find an apartment they can afford.

In my view, condominium conversions are almost an inevitable response to economic changes in housing. I doubt very much these trends are going to be reversed in the near future. If not, condominium conversion is inevitably going to continue.

Mr. Stegman has spoken about some of them. I would cite the rising cost of land and construction that has made it virtually impossible to build apartments that are affordable by the great majority of people. There are others also: the high cost of maintenance and materials; the high cost of energy which is making it very difficult for landlords to maintain their apartments; high interest rates which are causing many landlords to reevaluate the return they get on their investments; rent controls that are viewed by many owners as unfair and confiscatory in their effect, and have been evaluated by a number of objective analysts is detrimental to the maintenance of a sound housing supply.

Changes made some years ago to the Internal Revenue Code reduced the accelerated depreciation which could be achieved on older buildings for income tax purposes. I am not an expert on taxes, but some of my friends who are in the real estate business have said to me that removal of this favorable tax treatment was one of the major factors leading to condominium conversion.

In addition, there is the incentive that people have for buying simply because they get tax deductions for the interest and taxes they pay, and if one can afford the down payment, it makes sense to buy. If one cannot, of course, one is displaced.

While I fully recognize condominium conversions offer advantages for some persons and the localities in which they take place, I am deeply concerned about the erosion of the rental supply and the conversion of many rentals to condominiums.

Older people who are displaced by condominium conversion are not very large in absolute numbers. Mr. Hammerschmidt referred to that. First, of course, as he indicated, most older people are homeowners and fewer are renting; and, second, only a minority of people who are displaced by condominiums are elderly, though it is a sizable proportion.

The District of Columbia is one of the places in the Nation where condominium conversions are most frequent. So, we looked at the data from the unpublished magnetic tapes of the annual housing survey conducted by the Bureau of the Census in the District. We wanted to see how many people who are elderly in the District of Columbia might have been displaced by condominium conversion. We found that only about 1,775 elderly households in the District of Columbia moved for any cause in the year prior to that survey—less than 1,800.

A fairly large proportion of these—508 households—said they had been displaced, but this was displacement from all kinds of units, not just condominiums.

So, the absolute numbers of elderly displaced by condominiums are not very large. There are perhaps a few hundred a year in Washington. I think that would probably be true in other communities as well, because the District is one of the places where there has been a lot of condominium conversion taking place. But this does not mean they are not important.

Who is to say what value should be placed on the pain of even one elderly lady who says, "I felt like my heart was taken out of me." Suffering like this by older people, who could be our own mothers, must be dealt with as a matter of highest priority. But the small numbers mean that if we want to do something to relieve the impact on the older persons, we need not be concerned about adverse impact on the owners or landlords. There are not enough people that would cause an adverse economic impact.

What we can do, in my opinion, and the only truly effective measures would be those who replenish and maintain an adequate supply of rental housing in the country. One possible answer would be to give a tax cut to those who make such housing available. Short of measures that specifically alleviate or eliminate the impact on the elderly, I know of nothing else as likely to keep displacement under control. I do not feel that moratoriums on condominium conversions are effective, since the experience of my home locality, Montgomery County, Md., suggests they merely stave off the inevitable.

I would call your attention to a story in today's Washington Post about condominiums. We do not have nearly enough rental housing at prices older people can afford, and one of the ways to supply it is to build more housing specifically for occupancy by the elderly, with Government support. An existing HUD-sponsored program has been operated largely with nonprofit sponsors, such as religious and civic organizations. It has been very successful, and there are often large waiting lists for existing structures. Much more of this would be helpful. A second kind of measure, in my view, which helps eliminate the impact is the type that gives elderly renters a lifetime tenancy right to the property they have occupied for 5 to 10 years. I believe such a measure is essential to prevent a great deal of human pain.

As I have indicated, however, I don't consider that this is adequate to deal with the large forces which lead to condominium conversion in the first place. Thank you.

Mr. Roybal. Did I understand you to say that impact of conversions on the senior citizens is not very great?

Mr. Grier. In absolute numbers it is not so great.

Mr. Roybal. Isn't it true 17 to 18 percent of the entire population are senior citizens?

Mr. Grier. There is a large population of senior citizens.

Mr. Roybal. Isn't it true that 17 percent of the senior citizen population do not own their homes and have to rent?

Mr. Grier. That is approximately the percentage, yes, sir.

Mr. Roybal. There are approximately 27 million senior citizens in the United States; is that true?

Mr. Grier. That is quite true.

Mr. Roybal. These are people over 65 years of age?

Mr. Grier. Yes, sir.

Mr. Roybal. Isn't 17 percent of 25 million a large number? And these are people, are they not, in the lowest of income brackets?

Mr. **Grier.** Most of them are; but let me make myself a little bit clearer, if I may.

Mr. **Roybal.** Most of them are then in the lower income brackets and most of them exist—I was going to use the word "live" but I am using the word "exist"—on a social security check coming in once a month and sometimes it comes in late.

Mr. **Grier.** Or SSI.

Mr. **Roybal.** Nevertheless, these are people in the lowest of income brackets. The moment that a conversion is approved and that unit is converted, isn't it also true that 99 times out of every 100 that unit is no longer available to a senior citizen?

Mr. **Grier.** That is the effect of it, in many cases rental units are not being converted—but let me state what I said, if I may, sir, because I was not trying to minimize the importance of the problem. What I was trying to say was in absolute numbers; if you take the absolute number of elderly people displaced by condominium conversion in a year, that figure is not very large. We just did not find evidence of it.

Ms. **Oakar.** I am sorry now I did not read my statement because you are really speaking in generalities.

Let me give you a couple of studies to which I would like to refer. The Washington Economic Development Group reported 45 percent of the households moving from apartment buildings undergoing condominium conversion were elderly-old—45 percent. That is pretty high, wouldn't you say?

Mr. **Grier.** There weren't that many units being converted.

Ms. **Oakar.** Are you talking about numbers of units?

Mr. **Grier.** I am talking about actual numbers.

Ms. **Oakar.** Wait a minute. Forty-five percent of whatever number is a substantial portion.

Mr. **Grier.** I did say that. I am sorry if I did not make myself clear.

Ms. **Oakar.** Let me refer you to a GAO report which took Seattle. I do not think it is as typical as some of the more urban areas in the Northwest. In my State, for example, 50 percent of older Americans living on fixed incomes live in Cleveland. In Seattle, however, in their study 16 percent of the condominium conversions involved elderly people—16 percent of the condo conversions. That is in a city that is not as highly populated with older Americans as some of the cities like my colleagues' areas and my area.

You are not giving specifics. You are just generalizing.

Mr. **Grier.** I did cite the Economic Development Group study, which said 30 percent of people displaced were elderly. I am not in any way at odds with you.

Ms. **Oakar.** You do not think it is a high proportion?

Mr. **Grier.** It is a high proportion but in absolute numbers, in any given period of time, there is not a huge number of elderly being displaced. In my view this makes it easier to deal with the problem.

Ms. **Oakar.** I think your statement is totally incorrect.

Mr. **Grier.** Then you are arguing with the Census Bureau.

Ms. **Oakar.** I am on that subcommittee and they have always underestimated the older Americans in our country and the population size of older Americans and the poor and particularly minorities. We all understand that.

Mr. **Grier.** I understand there has been an undercount, but not of older people. I believe it is mainly of younger minorities.

Ms. **Oakar.** I think you need a little brush up on your statistics.

Mr. **Stegman.** May I point out that the precise purpose of our study is to provide definitive answers to the kind of dialog you and Mr. Grier are presently engaging in. For example, I indicated in my opening statement that a relatively surprising percentage of conversion purchasers are elderly. We will have a lot more of this kind of information in order to pinpoint the nature of the problem and thereby, hopefully, be able to design the most appropriate ways of dealing with the problem.

Mr. **Roybal.** Mr. Stegman, I am not sure HUD is doing much to alleviate the problems that now exists. As was indicated a while ago in the housing bill, there was nothing said about housing for the senior citizen.

I would like to ask you this question. Would it be feasible for HUD to give special focus to increasing the stock of moderate rental housing in areas hard hit by condominium conversions?

Mr. **Stegman.** Certainly, there is no reason why it cannot, given adequate program levels.

I remind you that the administration brought to the Congress a request for sufficient housing assistance to provide 300,000 assisted units in the next fiscal year.

The proposed administration package that went to the Hill included 300,000 assisted units 60 percent of which were to be new construction and 40 percent which were to be existing housing support.

What the final package will be, I do not know. But from the standpoint of being able to provide assistance on a targeted basis, certainly there is no basic reason why targeting cannot be done, but conversions are only one aspect of the larger question of impacted rental housing markets.

Mr. **Roybal.** Would both of you agree senior citizens have a real problem whenever the unit in which they are living is in fact converted?

Mr. **Stegman.** It is my judgment that the problem is disproportionately serious for elderly families that are involved in the condominium conversion process, yes. But I also say to you that there are a number of elderly families who are not low income and who purchase their units. The nature of the problem has much more to do with the affordability issue than the age of the renter.

Mr. **Roybal.** Let's take the situation right here in Washington, D.C.

Mr. **Stegman.** Sometimes it helps to go further.

Mr. **Roybal.** People within a few blocks from here, people who were senior citizens no longer live there. So there must be a problem.

Mr. **Stegman.** No one is doubting that, sir. I understand that what we are doing on a demonstration basis is clearly limited and not an actual program with a nationwide focus. But a $3 million award was made to the District of Columbia by HUD to assist tenants to take advantage of an existing local law which allows tenants the first right of refusal to participate in the conversion process.

Mr. **Roybal.** Isn't it HUD's position that condo conversions, as it affects the senior citizens is, in using your word, disproportionate? I am sure that is the word you used.

Mr. **Stegman.** I was giving you my judgment that the problems of elderly families who were involved in conversions are disproportionately serious to the rest of the families involved in it. They are probably less able to deal with that crisis situation.

How extensive the problem gets back into the issue that I just joined.

I agree with you that it is quite serious for some unknown number of families who are involved.

Mr. ROYBAL. Thank you.

Mr. GRIER. Mr. Chairman, may I respond?

I did not suggest in anything I said that the problem was not important. You asked, did both of us agree that it is important. As a matter of fact, I cited specific quotes from older people who had been displaced who said things like, "I felt like I lost everything. I felt like my heart was taken out of me." So I was not in any manner of means suggesting the problem was not important. It is very important to those who are displaced.

Mr. ROYBAL. The same condition of stress you talked about can be applied to every person displaced by a condominium. Do you agree with that?

Mr. GRIER. I agree absolutely. I was merely saying that because of the situation of elderly people, and because condominium conversions take place over a period of time involving only certain rental structures, the actual numbers are not that big. Therefore, it is possible to deal with the problem in terms that are effective.

Mr. ROYBAL. I cannot understand why you continually state that the problem is not that big.

Mr. GRIER. I said the actual numbers are not that big.

Mr. ROYBAL. But we have already established that the population itself is in the neighborhood of 26 million, 17 million are renters. We also established the fact that in cities such as Los Angeles, and other cities throughout the country, the condo fever is at its highest and that senior citizens are involved. You came out and told us there are matters of stress related to this and we agreed with that, but we seem to disagree about the one thing that is important—that it does affect considerably the senior citizen population of this Nation. There seems to be a little disagreement between the witnesses and the committee on that one issue.

Mr. STEGMAN. If I might make one statement. There are many steps between the statement of how many elderly renters there are in this Nation and how many of those renters are being displaced from buildings that are being converted. That is where the disagreement is, not the seriousness of the problem that affects those who are actually involved. That is the difference.

Mr. ROYBAL. The situation as it now stands is that the person who is affected by a condo conversion really suffers the stress conditions as described by Mr. Grier. And while one may minimize the number, even if it is just a dozen in the city of Los Angeles or Washington itself, and believe me, there are many, many more than that, it is a problem and it is something we should address ourselves to. What we are trying to get from you is what is HUD doing about this problem and what kind of a program do you have.

I am going to ask you one question and I am going to ask each one of you to answer as briefly as possible. If you could write the ideal condominium law for any city with substantial conversion, how would that law read? What are the provisions you would put in it?

Mr. STEGMAN. That is a difficult question to answer off the top of my head, sir. I am certainly concerned about the length of notice given to tenants by converters, and the right of tenants to make a matching offer of some kind. I would like to think that in situations where the tenant population wants to undertake the conversion themselves, that technical assistance would be available to help them.

I do not think the answer is a condominium law that goes beyond a substantial amount of tenant and consumer protection and the provision of technical assistance. I don't think the answer is substantial regulation of a process which really reflects a larger problem of maintaining the viability of the housing stock. The law, as you have framed the question, would be in a regulatory form, but I do not think that solves the underlying problem. I think what I would like to see is the availability of HUD programs to support families that are being displaced on the basis of revitalizing activities, whether the cause be condominium conversion or in other forms. Such programs must provide assistance to pay going rents in neighborhoods that are turning around and have the problem of low-income residents being priced out. The problems of conversion are really part of the larger rental housing market problem that I would like to see dealt with.

Mr. **Roybal**. Mr. Grier, would you like to respond to that?

Mr. **Grier**. Yes; I would, and much of it is in agreement with what Mr. Stegman said.

It is important that there be a long-term period in which to find alternative housing, to provide a long span of time in which people could find alternative housing. The District of Columbia law provides 4 months and that is not long enough for some people so I think it should be substantially longer. Perhaps we need to find out how long it took in a particular market. It would not be necessarily a uniform amount.

Another important provision would be the right of first refusal for the present tenants with a substantial period of time in which to exercise that right. This thing does not have to be done overnight. If you gave present tenants the right to purchase within, say, a year's time, I think that would be a reasonable provision.

A third thing which I think would be very important for elderly people, because many of them cannot afford to buy, would be the right of lifetime tenancy. This would literally guarantee an older renter the right to remain in the apartment after conversion as a renter, and at a controlled rent for the remainder of his or her life expectancy, however long it would be, and it might be conditioned on living there 5 or 10 years prior to the conversion. That would probably do more to alleviate the stress on older people than anything I can think about under the present situation.

Mr. **Roybal**. May I thank you, Mr. Grier and Mr. Stegman, for your statements and I would like to ask unanimous consent that any written material that you may have be included in the record at this point.

[The information follows:]

PREPARED STATEMENT OF GEORGE GRIER, PRINCIPAL, THE GRIER PARTNERSHIP, BETHESDA, MD.

I am honored to be asked by this committee to testify on the impact of condominium conversions on the elderly. I wish to emphasize that my testimony today is rendered as an individual private citizen. Although the previous work on which this testimony is based was sponsored by various public agencies and non-profit public-service organizations, and has used data from various public and private sources, none of these organizations has been involved in any way, financial or otherwise, in the preparation of this testimony. Nor is any responsible for what I have to say. I bear sole responsibility for the viewpoints I express here.

I have had a number of opportunities to look at the problems affecting displaced elderly people from various viewpoints. I have not made any studies specifically focused on displacement of older people by condominium conversions. However, I have made a number of studies of the elderly and of conditions affecting their welfare. In addition, I have made a couple of studies of the problem of displacement itself. One of these was made in 1978 under the sponsorship of the Office of the Secretary of the Department of Housing and Urban Development. A second, which is now under way, is being made under a grant from the Ford Foundation. Both of these studies have required me to become thoroughly familiar with research already completed and under way on displacement of all kinds.

Additionally, I recently completed an analysis of the problems and future prospects of elderly people in the United States. This work was produced under a grant from the Department of Health, Education and Welfare to the International Center for Social Gerontology. It was done as part of the early planning for the White House Conference on Aging of 1981. As a result of this work, I had an opportunity to familiarize myself with much of the work that has recently been done on the needs and problems of older Americans in housing and other areas of life. In the Housing chapter of this report I remarked that "a growing peril to older people living in cities is that of displacement."

Condominium conversions are one of a number of causes that lead to the displacement of elderly people from their homes today. We know that when older people are forced out of their homes for any reason, the impact can be traumatic. One of the earliest and still one of the best examinations of the personal pain which displacement can cause older people was made a couple of decades ago by Marc Fried[1]. Fried studied people displaced from the West End Urban Renewal Area of Boston. Most of the people living in the West End were members of ethnic minorities and many were elderly. Often they had lived there for decades sometimes since shortly after they arrived in America. Hundreds of them were displaced by the Urban Renewal program.

The West End area was not being renewed because it was a pleasant neighborhood. On the contrary, it was a slum. Despite the bab physical condition of the dwellings and the neighborhood, many of the people who were displaced and who could be tracked down and interviewed by Fried and his staff suffered severely as a result of being forced to move away from it. Some felt no loss at all; but nearly half of the women interviewed by Fried and his staff—46 percent—reported feelings of sadness or depression that lasted from six months to more than two years. About 38 percent of the men had similar reactions.

Fried, whose psychiatric background enabled him to interpret this reaction in the light of others he had seen, likened it to the kind of depression one undergoes when he loses a close friend or relative. He called it, "Grieving for a lost home." This, in fact, was the title which he gave the widely-read article he wrote about it.

Some of the things these people said indicate the depths of their grief:

"I felt as though I had lost everything."

"I felt like my heart was taken out of me."

"I lost all the friends I knew."

"I felt like taking the gas pipe."

"I threw up a lot."

"I had a nervous breakdown."

And these were people who survived to be interviewed. Some have died before the study was made. While the causes of their deaths were unknown, there is plenty of evidence to suggest that with the elderly severe grief can sometimes lead to death.

I do not wish to overstate this point, however. By no means can it be said that every older person who is displaced—or even most of them—will die as a result. We do not know how many older people are likely to die out of any given number displaced. Nor can we even be certain that the displacement itself is the sole or the primary factor responsible for the deaths of such people. Older people are at that time of life when death comes more often in any event, and this fact must be taken into account. Yet it is clear that displacement at least brings severe grief to many, and sometimes perhaps even worse.

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[1] Fried, Marc. "Grieving for a Lost Home: Psychological Costs of Relocation." In *Urban Renewal: The Record and the Controversy*, edited by James Q. Wilson. Cambridge: MIT Press, 1966.

While it would be very helpful to have a study as intensive as Fried's of older people displaced form condominiums, I know of no such research that has been completed—although some may perhaps be in progress. I believe that it would show similar reactions. But there is certainly reason to believe that being forced from their homes is one of the worst things that can happen to elderly people.

While not of the same nature as Fried's work, a very useful study has been made by Development Economics Group of "Non-Purchasing Tenants" in apartment buildings converted to condominiums here in the District of Columbia. "Non-Purchasing Tenants" is another way of saying displacees, of course. The most recent study, in 1978, found that 30 percent of the households displaced had at least one person who was age 65 or over, and 25 percent had at least one member who was retired. The elderly displacees, the study said, "reported strong attachment to their units and the neighborhood."

The study gave figures on how long it took these displaced tenants to find new housing. D.C. law now requires that they must be given no less than 120 days. While most (though not all) tenants had managed to find something within that time, 49 percent required two months or more. The study does not indicate how many of these were elderly, but we can assume that many of them were. We can imagine how these elderly displacees felt when they found that it took two months or more for them to find a place to live. At today's prices some older people forced to move by condominium conversions never will find another apartment they can afford in the same community.

While displacement of the elderly by condominium conversions is a very serious problem, with devastating impact on individuals, it does not yet appear to be one that affects large numbers of people. There are several reasons for this. First of all, most older people are homeowners; the latest Census Bureau estimates show that nationally, about 29 percent of households with heads 65 or older were renters. Many of these rented single homes rather than apartments, so not even all of the renters are threatened by condominium conversions. And many of the renters are single persons, so their proportion of the total population is still smaller than the percent of households would suggest.

Second, all the evidence we have indicates that condominium conversions do not yet involve much of the rental stock nationally. We shall have to wait for the HUD study of condominium conversions for the most definitive data on this point, but the statistics we have suggest that the total converted to date is probably on the order of 1 percent or less of all rental housing. Over time, of course, this will grow. And in certain areas with "overheated" housing markets—Washington is one of these—the proportion is doubtless considerably greater. Still, all indications are that even in Washington, the number of conversions occurring annually is now in the low thousands.

Third, as I have indicated, studies of displacees from condominium conversions indicate that a minority of them—although a sizeable proportion—are elderly. The 1978 Development Economics Group study found that 30 percent were over 65. While this is quite a high proportion, it is still less than half of households displaced by conversions. Furthermore, by no means all tenants are displaced. The Development Economics Group study found that 32 percent of tenants in a sample of units had bought.

Finally, there is independent evidence from the Annual Housing Survey, a survey of a representative sample of households, taken in Washington in 1977 and early 1978 by the U.S. Bureau of the Census on behalf of the U.S. Department of Housing and Urban Development. The survey asks, among other things, their reason for moving. We looked at the unpublished magnetic tapes of that survey for data as to how many households might have been displaced. We found that only 1,775 households with heads over 65 living in the District in 1977 had moved for any reasons in the year preceding that survey. A fairly large number of these, 508, or about 29 percent, said that they had been displaced. But this was displacement from all kinds of dwellings, not just condominium conversions. And condominium conversions are only one of a number of causes of displacement of older people.

Therefore, when we talk about elderly people displaced by condominium conversions in the District of Columbia—one of the housing markets in which conversions have been most frequent—we appear to be talking about a few hundred households a year.

This does not mean that their problems are not important. Quite the contrary. Some people, of whom I am not one, equate the seriousness of a problem with the sheer numbers of people affected—as if the suffering of 500 people is somehow less painful to each of them than is the suffering of 500,000. Unless there are large numbers involved, therefore, they tend to believe that the problem is unimportant. I would like to disassociate myself from that kind of thinking. Who is to say what value should be placed on the pain of even one elderly lady who says, "I felt like my heart was taken out of me"? Who is to judge that there are too few like her to bother about? Who would make this kind of judgment about his own mother? This kind of thinking goes counter to our American ideal of the worth of every individual. So the fact that their numbers are fairly small in no way suggests that we owe any less than our fullest attention and resources to alleviating the plight of older people displaced by condominium conversions.

Although small numbers do not make a problem less important, they can make it easier to deal with. In my view, there is really no excuse for failing to deal with a problem as serious as displacement that affects a few hundred or even a few thousand elderly households in a city annually. If the numbers were very large, it might be argued that the available resources were insufficient. But this cannot be said when they are of the magnitude we are talking about here.

We do not need to be concerned, for example, that any reasonable measures we might take to protect elderly displacees will create an adverse economic impact on owners or landlords, or impact the intricate workings of the housing market. There simply are not enough people involved to do this. Therefore, we can and should take whatever measures are required to relieve the impact on older persons without further delay or hesitation.

What can we do? Basically, whatever approach we attempt must take into account that condominium conversions are almost an inevitable response to broad economic changes affecting housing, and the viability of rental housing in particular. And these trends are unlikely to be reversed in the near future; and if they are not, condominium conversions are almost certain to continue. Among the factors involved are:

The rising cost of available land;
High construction cost;
High interest rates;
High costs of maintenance (both labor and materials);
High energy costs; and
Rent controls.

High land and construction costs have made it uneconomic to build apartments renting at levels that most renters can now afford. High interest rates are causing many landlords to re-evaluate the return they get on their investments. Rapidly rising maintenance and energy costs are squeezing their budgets and are causing many to look for a more secure place to put their money. Rent controls, which have been imposed in the District of Columbia and elsewhere in an effort to hold down rent increases, are viewed by many owners as unfair and confiscatory in their effect. Landlords are not alone in opposing them. Many objective analysts have concluded that rent controls are detrimental to the maintenance of a sound rental housing supply.

Other disincentives to rental housing are built into the tax structure. I am not an expert on taxation. However, I have been advised by associates in the real estate industry that changes made some years ago to the Internal Revenue Code, which reduced the accelerated depreciation allowable on older buildings for income tax purposes, were one of the major factors leading to condominium conversions. This favorable tax treatment had greatly enhanced the attractiveness of older rental buildings as an investment. When it was removed, many landlords found it preferable to put their money elsewhere.

Another important disincentive is the income tax deductions allowed homeowners for the interest and taxes they pay. Thus, if one can afford the downpayment, it makes economic sense to buy. If one cannot afford it, one remains a renter and risks being displaced.

In my opinion, the only truly effective measures will be those that replenish and maintain an adequate supply of rental housing in this country. The best way to do this, I believe, is through the tax structure. Landlords who build or maintain sound rental housing should receive a deduction or tax credit sufficient to reward them for the public service they are performing. There is nothing new, revolutionary, or contrary to the American way of doing things about this proposal.

It has long been a common practice in this nation to accord favorable tax treatment to private activities that are considered to be in the public interest. These favorable tax measures have been provided by all levels of government. Direct governmental subsidies are also a possibility. They have frequently been used in the past to encourage rental housing. However, they are administratively complex and involve a lot of red tape. This is anathema to many developers. Worse, I fear that the record demonstrates that such subsidy programs are susceptible to abuse.

In the absence of affirmative measures to expand and maintain the supply, I do not feel that the negative measures such as moratoria on condominium converions are effective. The experience of my own locality, Montogomery County, Maryland, suggests that they merely stave off the inevitable. Much more promising are approaches that operate directly to increase the supply.

Along this line, a more limited approach than the tax route, but still highly desirable in my view, would be to expand federal support for rental housing specifically for occupancy by the elderly. This has been done successfully through non-profit sponsors by the HUD Section 202 program. This program has operated largely through religious and civic organizations. It has created many thousands of units for elderly people, and there often are long waiting lists for apartments in such structures. Obviously they are meeting only a part of the demand. Much more along this line would be very helpful.

Still another avenue of approach is one which attempts specifically to alleviate or eliminate the impact of displacement on the elderly. Measures such as that used in the District of Columbia to assure elderly tenants a long period of time to find other units can only be partially successful in a market where rents are rising so rapidly that they are pricing most elderly people out. A more promising approach, in my opinion, is that which gives elderly renters a lifetime tenancy right to property which they have occupied for a substantial period of time—say, five to 10 years. As I have indicated, the number of older people displaced each year in the District of Columbia is not so large that such a measure could be said to impose an intolerable burden on owners and landlords. They would, in any event, continue to collect rent from their elderly tenants. But it would serve to protect elderly people from the fear and sometimes the reality of displacement. I believe some such measure is essential to prevent a great deal of human pain.

As I have indicated earlier, I do not consider that limited measures of this type are adequate to deal with the forces which lead to condominium conversion in the first place. However, they will at least help alleviate some of the problems for older people. I consider it imperative that the nation deal affirmatively with the need to maintain and protect its rental housing supply. Thank you.

Mr. Roybal. The next panel of witnesses, Ms. Catherine Shea, Dr. Leon Pastalan, Ms. Katherine Eager, and Ms. Della Woodley.

Ms. Oakar. We are going to start and we will call on Kathryn Eager first.

Would you just take the mike there.

STATEMENT OF MRS. KATHRYN EAGER

Mrs. Eager. I would like to make a rebuttal to some statements that have been made this morning.

When the chairman asked about the effect of rent control on condominiums, he failed or neglected to mention that Chicago has no rent control law but it has the largest number of condominium conversions in the country. New York is second and Washington, D.C., is third. Washington, where I live, has the largest number of conversions on the percentage of population as compared with the other two cities. So you can draw your own conclusions, with Chicago leading with no rent control and Washington does have rent control.

Second, a statement was made that the elderly could best be relieved of their tensions if they were given life tenancy in a conversion. That is true if you have an across-the-board income with no cutoffs. It includes all the elderly. Just think what a travesty of justice it is

not be allowed to stay as an elderly person because your income
y be $60 above the prescribed cutoff in the law, and you are out
the cold because of $60 more a year. There should be no cutoff.
y worry about the few elderly rich? The great majority of elderly
ple of whom women 65 and over are the largest poverty groups
he United States.

urthermore, when the condominium bill went into effect in 1977,
y made one very bad mistake. The law provides that people who
in low-rent apartments may have the right to vote aye or nay
conversions, and people who pay a higher rent in apartment dwell-
s were denied that vote. That violates the 14th amendment on
al protection under the law.

urthermore, it allowed the rape of Connecticut Avenue, Wis-
sin Avenue, and Dupont Circle. Those communities are made
of civil service annuitants. They do without a great many things
live there, because they lived there when they worked and they
there as retirees. They try to hang on, but there is a peculiar
th among some housing activists on Connecticut Avenue that
are living in a luxury apartment. A woman across the street from
lives on $300 a month in an apartment that is about to collapse.
has meat three times a week and oatmeal the rest of the time.

Vhen the elderly are given statutory tenancy across the board
hout a rent cutoff in a bill that we hope will pass soon, the developer
wner is allowed a deferred tax payment so that he has that money
nvest while the elderly tenant occupies an apartment in his con-
ted building. When that tenant dies or moves for other causes, he
s the deferred tax on that apartment and he may sell it as a con-
ninium unit. So we feel this is a fair approach to the condominium
ation both for elderly and for owner.

was asked to read some profiles of elderly people that I knew. I had
d the conversion situation twice. This is not about myself but
ut people I knew and observed.

have tried to make it undramatic.

Ier initials are S. F. An elderly tenant in her 80's received notice the
lding where she had rented a one-bedroom apartment for many
rs had been converted to a condominium. Always a woman of order,
accepted the situation calmly and began an immediate search for
apartment in the same neighborhood. She found that she could not
rd a one-bedroom apartment there. She tried Silver Spring where
could get an efficiency for $10 more a month. S. F. took the
iency and prepared to adjust. She found it very difficult to do so.
is far away from her church, supermarket and friends. She has no
nor do the friends she left behind. Her life is mechanical—going
r food, preparing it and then eating. It is hard to make friends
0, especially when pride prevents admitting to loneliness.

. W., in her late sixties, moved into a new apartment house after it
ned. She took a job as a clerk in a nearby motel to meet her rent.
r she had lived there a short while the new building went con-
ninium. L. W. was alarmed and shaken but managed to find
ther suitable apartment just up the same street where she took
ther job as a clerk. Unfortunately, the building manager, who has
chiatric problems, fired many employees, including L. W. At this,
V.'s emotions gave way. She felt that she had lost control of her
in just a short while. She had been forced to move and lost a job.

She kept to herself and brooded most of the time. The final blow came when the sale of the second apartment building was announced. Again it was either buy or get out. L. W. began chainsmoking and was no longer able to make rational decisions. The management had been tolerant and let her stay until a new place was found. Several places had been identified but she had lost the will to reason with the situation. She was all packed up to move but she seemed to have lost a sense of reality. She lived in limbo. After several months of waiting for an apartment in the same neighborhood, she moved to her new home. She immediately had two heart attacks which immobilized her to such an extent that she now walks with a cane, always hoping that her present home is hers until the last heart attack.

M. D. is a woman 80 years old. She has a steel rod in her leg to replace a thigh bone and is blind in one eye. Like a good many elderly people, she has seen better days. She was widely traveled since her father had been an international lawyer. They had lived in fine homes and entertained graciously before misfortune had struck and left M. D. at 65 with a very modest sum. At that time, she moved from another city to Washington, D.C., where she had rented a small one-bedroom apartment. Her rooms were dark but attractive and furnished with fine pieces left over from better days. The notice of condominium conversion came unexpectedly. M. D. knew it was useless to consider buying. There would be nothing left to pay for food or physical care. She found a small, stuffy efficiency in the same neighborhood. It does not offer the view of the avenue and the movement of life that her older apartment had. She stored the bulk of her furniture after selling several pieces and now continues to try to make a go of it. She had lost some cheerfulness and wonders if this is her last home. She has a niece in Missouri but has not been invited to live there.

This is the last one. This woman of 70 has had several serious operations. The most serious was cancer of the bone. She proved to be a strong woman physically and recovered easily and quickly. When the notice of condominium conversion came, she decided to buy and attended meetings at which a lawyer explained the conversion process. However, a few weeks later, A. M. T. swallowed 20 sleeping pills. She was found in time and made a recovery. She considered what to do. She then decided not to buy and instead packed up her furniture and sent it to a northern State. Confused and troubled, she then changed her mind and again returned to D.C., taking an inexpensive motel room in the neighborhood to wait for a nearby rental vacancy. She eventually located a suitable apartment, except for her furniture, which was heavily damaged, and moved into her new home in her old neighborhood. However, she harbors a reservoir of deep bitterness and faces a strong possibility of another move at the Van Ness complex.

Age is supposed to bring serenity, not bitterness or hatred, but largely unknown tragedies of the elderly need not happen if the law gave them the protection of statutory tenancy without regard to income. We owe it to senior citizens in their last remaining years. Thank you.

Mr. ROYBAL. Thank you very much.

May I have the next witness?

We are going to ask if you have a statement, make it, and then we will ask questions.

The next witness is Ms. Della Woodley.

STATEMENT OF MS. DELLA WOODLEY

Mrs. Woodley. My name is Della Woodley. I am president of the tenants association at 2422 Ontario Road, NW. My statement is concerning the building I live in and which they are trying to convert. We started a rent strike in December. Since then we have gotten letters from the landlord trying to get us out of the building. He sent us a letter of discontinuance, warning us to move by the 31st of October, which we are going to try to fight. We tried to buy the building and we have not had any success in getting the building. We are still trying to fight. We have 15 units in our building and now we only have 8 units rented. The eight-unit occupants are trying to keep this building because it is a low-rent building, but we do not want the owner to take it away from us if we can help it.

If they turn it into a condominum, it is very hard for us to buy because we are all low-rent tenants. Most of the elderly have moved out to different places because they were afraid that they were going to get put out or thrown out onto the street and nowhere to go. The ones left behind are just trying to keep this building. If we can keep the building, we can get all the tenants back in the building and continue taking care of them like we were at first.

The high conversion rates make it difficult to find any place for people to go because we are, as I said, low-rent people, very low rent. It is hard for us to find an apartment, even a one-bedroom apartment, they are so high. We just cannot afford to move and we just don't want our building to be converted.

Mr. Roybal. Thank you very much.

The next witness is Mrs. Shea.

STATEMENT OF MRS. CATHERINE SHEA

Mrs. Shea. I do not have any statement to make, but I would like to comment a little on what Mr. Grier said about what would happen to older people experiencing condominium conversion. I thought his deas were pretty good about the tenants being allowed unlimited tenancy after the building has been converted. Also, consideration should be given for the tenant who wants to buy. I don't want to buy and I don't think I should be compelled to buy nor should anyone else. It is a matter of free choice. I am now in the second stage of having to move because of condominium conversion.

I am not complaining for myself, but I do see around me all the ime some very, very unhappy and sad situations, and it is not always—I would say almost always for the people in my neighborhood—it is not a question of money. But I think there are emotional problems.

Mr. Roybal. Thank you very much.

Dr. Pastalan.

STATEMENT OF DR. LEON PASTALAN, DIRECTOR, ENVIRONMENTAL AGING PROGRAM, INSTITUTE OF GERONTOLOGY, AND PROFESSOR, COLLEGE OF ARCHITECTURE AND URBAN PLANNING, UNIVERSITY OF MICHIGAN

Dr. Pastalan. In keeping with the time limitations, I have a brief summary statement. I have spent a great deal of my professional career investigating the traumas associated with changing environments, whether we are talking about community-based kinds of residential changes or health facilities that force people to leave one particular nursing home and go to another.

I am really quite convinced that the trauma associated with being forced to change residence is a very devastating one in a number of different ways, including death. We have found in our research, particularly in nursing homes, that there is a very high death rate associated with forced relocations.

There has been a great deal written about the traumatic effects experienced by elderly people upon changing their environments. This effect is often called relocation trauma. The first question that arises is: Do all older people under all conditions experience negative consequences following a move, or are certain types of individuals more susceptible under certain conditions? The next question: Can anything be done to facilitate adjustment to a new setting and reduce potential trauma?

In our research and the research of others in terms of relocation trauma, we have found the following: The greater choice and control the individual had in being relocated, the less negative the effects of relocation tended to be. The more predictable a new environment was, the less negative the results were in general.

Those people of advanced age, poor health and confused mental status did not fare as well as those who were healthier. There was some indication that those people who took an angry or philosophical attitude toward the better move showed a better attitude than those who tried to withdraw.

Most of the studies did not find a relationship between such characteristics as educational level, occupation or income, and post location adjustment.

Many studies have found that the first 3 months immediately following the move are the most dangerous in terms of increased mortality and other types of morbidity.

Distance moved tend to to be a reasonably good predictor of vulnerability and, finally, those who moved involuntarily from one residence to another showed greater decreases in life satisfaction than those who made the move voluntarily.

It has been my experience, which is corroborated in the literature, that personal characteristics, such as age and health are very crucial characteristics. The older the person, the more fragile the health, the more difficult, and traumatic will be the relocation.

Another element that is probably just as important is degree of choice in making the move. We have found that voluntary moves have frequently been associated with very positive kinds of changes; whereas, involuntary moves are frequently associated with negative changes.

The degree of environmental change is important. Does a person have to relocate outside the neighborhood where they spend most of their adult years, for instance? And also the extent of preparedness of a person to make that move.

These characteristics I have been mentioning impact directly on the adjustment of the elderly mover.

In conclusion, it seems clear that an involuntary move is not a good option for most elderly adults. It is a dangerous experience and should be avoided whenever possible. The conversion process dislocates our elders from their homes. It forces them to leave what has become a most important possession because it often forces them to leave family and friends and move away from the public and private services on which they have come to rely.

It is recommended, therefore, that:

1. Those persons over 65 who wish to remain in their apartments be provided with a lifetime lease at reasonable rents. Those units will not be offered for sale until the older adult moves out or dies.

2. For those who choose to move voluntarily or if for some reason the first recommendation is found to be impractical for whatever other reason, the owner must provide tenants with a relocation service which helps tenants find comparable apartments in size, amenities and location. The apartment must be available for at least 1 year.

3. The owners must also assist in orienting and familiarizing the tenant with community resources and locating essential and life-enriching services.

4. Pay moving costs and at least a $500 relocation fee.

5. If the rent is higher, the new owner must pay the rent for one year.

(See Dr. Pastalan's prepared statement and additional material in app. 1. p. 65).

Mr. **Roybal.** Thank you, Doctor.

You made reference in your written text to the Victoria Plaza.

Dr. **Pastalan.** Yes

Mr. **Roybal.** That is a very interesting finding. You stated there can be a health benefit of a good living environment for the long range as well as the short. Does that mean that the person who moves voluntarily to a better situation, so far as the apartment is concerned, that that person does, in fact, live longer?

Dr. **Pastalan.** I think Victoria Plaza is a very special kind of setting and the people who did move in there moved in there voluntarily. Also, there were a number of very important supportive services that were provided as part of that housing complex.

Mr. **Roybal.** Has any study been made about the health effects of individuals who move involuntarily from one place that is almost a slum to one that is completely a slum?

Dr. **Pastalan.** In fact, the so-called objective measures of an environment—better plumbing, the doors work and so on—while certainly important—and I would not want to take away from that—but we have found that the other elements of a person's life are probably more important. That is, what is the support network that surrounds the resident? Is there a family nearby? Is there access to certain services, such as transportation to go to one's doctor or go to church or go shopping or whatever?

So I think that probably the more important point might be, what is this support network and can they support the person to maintain independence and continue to live a successful life.

Mr. **Roybal.** Is it true that stress is greatest when a person moves from one place to another, and the final place is worse than the previous one?

Dr. **Pastalan.** Yes. I think because of the underlying symbolic meanings of a deteriorated situation—if you go from a reasonably nice apartment to one that is not so nice and you were forced into it, you are among strangers and maybe there are problems of making the lock work on the front door and that kind of thing. It is probably true that the symbolic meaning behind the stepdown and the feeling of abandonment is a very real issue.

Mr. **Roybal.** What can community groups do to prevent or alleviate that displacement of the elderly which you have mentioned? Do you have any suggestion for individual groups?

Dr. **Pastalan.** I think there have been a number of suggestions made already. What we really need is more rental units, more housing.

We did a study about 3 years ago in the metropolitan area of Detroit. We looked at the reason people were abandoning their homes and seeking more sheltered situations such as public housing. We found that there were literally 3- or 4-year waiting periods for people applying for housing. That is an indicator that there is a great need for rental housing.

I think also that perhaps public bodies, such as municipal organizations and State legislatures, should provide legislation that would protect the tenant or the resident and provide certain kinds of assurances in the transfer. If the person is going to be moving because of conversions, then, in fact, the alternative should be of comparable quality and comparable location and so on. I think that is certainly one thing that can be addressed.

Mr. **Roybal.** Ms. Woodley lives in a 15-unit apartment. The landlord has attempted to vacate it. Only 6 of those 15 apartments are now rented. When they are all vacated, then she will be forced to seek housing someplace else. She testified that this is very low-rent housing.

Mrs. Woodley, can you describe the condition of your building at the present time?

Mrs. **Woodley.** At the present time, the building has been rehabilitated by the D.C. Government. They come in and put our walls together and some parts of our apartments together. But before they stepped in, I would say from the latter part of July until November, our building was just completely wide open. You could sit in your living room and look through to your bathroom. He gutted it that way and left it that way.

Mr. **Roybal.** It has been rehabilitated partly by the D.C. Government?

Mrs. **Woodley.** Yes.

Mr. **Roybal.** So it is much better than before?

Mrs. **Woodley.** Yes; it is.

Mr. **Roybal.** Now the landlord wants to convert it?

Mrs. **Woodley.** Yes, sir.

Mr. **Roybal.** Has the landlord offered to sell the tenants the building?

Mrs. **Woodley.** Yes, sir. He wants $283,000 for the building.

Mr. **Roybal.** That means for all of the tenants?

Mrs. **Woodley.** From those who are left.

Mr. **Roybal.** Would you say it is important for the tenants to get together to buy the building?

Mrs. **Woodley.** No; I wouldn't say because we have tried to get the money together and we must have the earnest money by the 12th of next month and we don't have it.

Mr. **Roybal.** Was this a written offer he made?

Mrs. Woodley. Yes, sir.

Mr. Roybal. If you do not exercise your right to buy by a certain period of time, will you be evicted from the building?

Mrs. Woodley. I don't think we would be evicted right then, because that would give them authority to sell it to someone else if we don't have the money by June 12.

Mr. Roybal. But the end result would be the conversion of the building whether it was done by this landlord or a future landlord?

Mrs. Woodley. That is correct.

Mr. Roybal. Do you think the tenants would be able to buy the building?

Mrs. Woodley. No, sir, and we have tried to get the Government to buy it for us.

Mr. Roybal. Do you know what has happened to the other seven or eight senior citizens who lived in the building?

Mrs. Woodley. One lady moved to the Northeast. Another moved to the lower part of Northwest. Another gentleman moved to Columbia Road, sharing an apartment with someone.

Mr. Roybal. Are their living conditions better or worse than those they left?

Mrs. Woodley. They are better than what they had, but they had lived there for quite some time and would prefer to come back to live in the building.

Ms. Oakar. I believe you mentioned this was the second time you are going to be asked to be relocated.

Mrs. Woodley. Yes.

Ms. Oakar. I think the doctor gave some very good suggestions today. Were any of these conditions met when you were asked to move?

Ms. Shea. I lived at McLean Gardens and I am sure you know the whole story of that.

Ms. Oakar. I really do not, to be honest with you.

Ms. Shea. The dispute first started in the early 1970's when they started to talk about converting. There was a tenants' association. There was talk and talk and talk. Then the whole apartment complex—there were 750 or 725 apartments—was sold or was going to be sold, and it seemed that the owners were not very farsighted. They were supposed to allow the tenants to have first choice and they did not do it.

Ms. Oakar. They did not do it?

Ms. Shea. No, they did not do it.

The tenants who remained in the complex—there were about 150 who would not move out—they couldn't be put out. They tried to purchase the whole complex. Dwight Price, the developer from California, was going to buy it at $30 million and that is when the litigation started between groups of tenants. So the law had decided in favor of the tenants that they should have the first opportunity. So they were to be allowed to purchase at $25 million.

Ms. Oakar. Most people who are older Americans, the older woman lives on $238 a month and they can't afford——

Ms. Shea. I pay $242 a month for a one-bedroom apartment which was very, very pleasant. It was very, very pleasant to live there.

The apartments being sold now, the smallest, just one-room apartment is selling for $80,000. That is the lowest price.

Ms. OAKAR. Did the developer offer to help you move, as the doctor suggested? Did they offer to find you a better place?

Ms. SHEA. Yes; that is one of the good things about that. They had a relocation office and they did very well.

Ms. OAKAR. Is the developer offering to help you move, Mrs. Woodley?

Mrs. WOODLEY. No. He just gave us newspaper ads of places for rent and showed them to us.

Ms. OAKAR. Did the developer offer any of you a relocation fee?

Ms. SHEA. Yes. We were allowed moving expenses and they had other items. I cannot remember the rest of them now.

Ms. OAKAR. Anything to get you to leave?

Ms. SHEA. Yes; anything to get you out but it was fairly decent. I couldn't complain about that but we did have a deadline, 3 years ago. As I say, 150 people refused to move.

Ms. OAKAR. For the record, most people were older and would not be able to purchase property with a 25- or 30-year mortgage.

Ms. SHEA. It is totally absurd. When the sellers were giving me wonderful reasons why I should purchase, I thought it was absurd.

Mr. OAKAR. Did they offer a discount?

Ms. SHEA. No.

Ms. OAKAR. I mean like 25 percent if you were in the building, 25 percent lower than the market?

Ms. SHEA. No. At McLean Gardens they wanted everybody out and then they would start from scratch.

Ms. OAKAR. So most of the points the doctor suggested are not fulfilled in the Greater Washington, D.C., area.

Ms. SHEA. I am not a businesswoman, but from my experience, I have seen many unhappy people.

Ms. OAKAR. Thank you very much.

Mr. ROYBAL. On the amount of moneys offered to move, we have evidence in the committee that in many instances they offer $500 for the move but then reduce it every month and if they don't move before the fifth month, they do not get anything.

Ms. SHEA. Where I am living now, the first 3 months of the year they are offering $3,000. This struck me as absurd. Why should I be offered $3,000 to move? If they want to pay my moving expenses, that is fine. After 3 months it goes to $2,500, then to $2,000 and by the end of the year it will be nothing.

Mr. ROYBAL. If you stay there long enough, you do not get anything?

Mr. SHEA. That is correct.

Mr. ROYBAL. May I recognize the gentleman from Kentucky, Mr. Hopkins.

Mr. HOPKINS. Thank you, Mr. Chairman.

Having gone through the experience that each of you has now gone through, let me reverse that and look through the other end of the telescope. Let's assume I am in your position and you are the landlord. Having the experience that you have had, what would you do differently? I ask that of the three of you.

Mrs. EAGER. If I were a landlord and saw with an open mind what the elderly go through—in the first place, let me say that when a person has lived in a building for 20, 25, or 30 years, he has an equity in that building.

Now Western European countries recognize that but in America they do not. We have paid for that building through our rent. In the District they have an 8-percent return if they do not break even. They are given 8 percent of what they should have made.

As a landlord, I would like to make money. I would like to make money in any kind of a profession that is honorable. But the landlord must realize that he is dealing with human beings and with elderly human beings it is quite different. Although there are hardships on the young, the elderly must have familiarity of surroundings. They must have the right of a choice.

Furthermore, in some instances, in some communities, when they have to pass the means test in order to stay on as a statutory tenant, hey have a great deal of pride and they refuse to reveal their incomes. They feel guilty because they have not made out as well as they hought they might have during their working years.

Mr. Hopkins. Let me ask you, Ms. Eager, if you were the landlord, you say you are not opposed to making a profit and few of us are, but having had your experience now, what are you saying you would do different than your landlord is doing?

Mrs. Eager. Being an elderly person, perhaps I am biased, but the irst thing I would do is grant statutory tenancy to any person over 62 egardless of income. That would soothe my conscience quite a bit. I want to make a profit. I also have to be openminded enough to regard myself as having disrupted the lives of people. A stranger walks in off he street and says, "You have to buy or you have to get out." That is a disruptive episode in a person's life.

So, as the doctor suggested, when a landlord wants to convert, he must give the tenants who cannot buy similar accommodations in neighorhoods that are familiar.

Mr. Hopkins. Ms. Shea, do you have anything you would add to hat?

Ms. Shea. No. I believe in the profit motive. The owner has a right o legitimate profit and he is governed by the laws, and I do think hese are new statutes being introduced into the condominium field. think such things as legitimate profits should be decided. I could ot decide anything like that nor could I decide what percentage of large house or complex or large apartment house perhaps should be iven over to people who just want to rent. I think that should all be aken into consideration from both sides, both from the owner's and he renter's side, with due consideration to both.

Mr. Hopkins. Mrs. Woodley, do you have anything to add to that?

Mrs. Woodley. I just think that no landlord should walk in, just uy a place and walk in and destroy it like this landlord did. If he anted us out, he should have told us when he took over, but he said e was going to repair different places, make us live better and feel etter. Instead, he just came in and tore the place apart and left it hat way. I do not have any sympathy for him at all. I think we hould be able to stay right in that building regardless of what he did.

Mr. Hopkins. What you are saying is, you do not feel you were eated fairly?

Mrs. Woodley. That is right, and none of the tenants feel they ave been treated fairly.

Mr. Hopkins. If I understand what the other ladies are saying, you el like you should be given more fairness. If you are above age 62, you should have more rights as a renter than those people who are below age 62; is that correct?

Mrs. **Woodley**. I myself am not saying that, no, sir.

Mr. **Hopkins**. I bring that up because I have a little problem with that because you get into the area of age discrimination. I am opposed to age discrimination. If I read an article in the paper written about me and it is favorable, I always think it is a wonderful article and a great author. If it is critical of me, I always think it is done by a reporter who does not know what he is talking about by an irresponsible newspaper. This is the same way this goes.

Mr. Chairman, I did not mean to take so much time but I think it is important.

Mrs. **Eager**. I think being against the age discrimination is a bit unfair for the simple reason that people under 62 are still working. They are still in the work force. They have more money than retired elderly people so there are legitimate compassionate grounds for making this distinction.

Mr. **Hopkins**. I understand where you are coming from and I share what you are saying, but as far as working is concerned, that is part of the age discrimination factor some of us are trying to remove. So you just don't reach a magic age when they say goodby to you regardless of your health or contribution. That is another subject.

I would have a tendency to agree with what you are saying. When our senior citizens get older, they are not as adaptable as those of us who are younger and can be more mobile. It is an area where I think the Government, very frankly, will have to become concerned. We are living longer. Ten years ago there were only 3,000 Americans over 100, today there are over 10,000. Those people are just not capable of moving too often and I think we can do better in this area and I think the Government should do better, in my honest opinion.

I thank you for responding.

Ms. **Shea**. I have a friend who is 99 and he is remarkable. I have other friends who are in their 80's and 90's and just great.

Mr. **Hopkins**. I join my colleagues in thanking you for your attendance here today and our chairman for calling this important hearing, which I think will be beneficial. I thank you for taking the time to respond to my questions.

Mr. **Roybal**. The gentleman from North Carolina, Mr. Gudger.

Mr. **Gudger**. Thank you, Mr. Chairman.

I want to commend you for these hearings.

I think condominium conversion is something which is a concern to every one of us. And, of course, this problem of the traumatic experience of the elderly confronting relocation is a subject that is a very proper application of the attention of this committee.

I want to ask Dr. Pastalan a question which I think arises not only from his own conclusions and recommendations but also have the comments of one or two others who have suggested that after age 62 that there ought to be some degree of security in the location of the older person. In other words, if he has occupied a location for a period of years, at age 62, there ought to be some reasonable security of continued occupancy and you expressed the thoughts these people over 65 who wished to remain in their apartments be provided with a lifetime lease at reasonable rent. Assuming that were law, what would keep the apartment owner from terminating the leases of all his tenants at age 60?

Dr. **Pastalan**. Yes, that is a danger that frequently arises when quirements are made to protect a particular class or group of indi- luals that really hurt them in the long run. I have thought about at particular issue when I was formulating my recommendations. I think that maybe a larger issue is not to have the entire burden l on one particular party, that is, the owners of the condominium. think we all share some responsibility in providing some sort of otection for vulnerable or fragile tenants. We should not just lay burden on the owner but have a network of supports from across community and perhaps the society as a whole so that one par- ular party would not suffer unduly.

Mr. **Gudger**. I am gratified that this line of discussion has brought t the distinction between the major condominiums, which do not stinguish among tenants, and I would think that is what Ms. Shea discussing. I think the gentleman from Kentucky was suggesting ere should be no age distinction but when we deal with those of gile health—and that is what you have been addressing. Dr. stalan—perhaps there needs to be a social protection.

I think we see the dilemma of treating those of mature years dif- ently from those of lesser years. They should be able to work and joy the fulfillment of physically and mentally active years by the me standards as other, younger people experience, yet have some cial protection to defend them from unusual loss of hazard.

The testimony has been very interesting, Mr. Chairman. I have joyed what I heard. I regret I could not hear it all because of some ties on the floor but I commend these witnesses and I commend you getting into this very important subject.

Mr. **Roybal**. Thank you very much. I have two questions I am ng to be asking. Ms. Shea, I understand you have been under dical care. Was that due to any problem related to housing?

Ms. **Shea**. Perhaps. I cannot say for sure because my doctor could t say. There was absolutely no reason for having the condition and knew I had been disturbed. That is all. He just left me hanging e that because he thought I had been under a great deal of stress. u just can't swear that that is exactly the reason.

Mr. **Roybal**. The chances are that it is perhaps directly related.

Dr. Pastalan, you have stated that there is a high death rate as- iated with relocation. I suppose the death rate associated with ocation is quite serious. Can you give us some more information that?

Dr. **Pastalan**. The death rates that I was talking about were ated primarily to individuals who were being relocated from one ended care of facility to another. We do know, however, Mark ed, certainly in his West End Studies—and there have been a mber of other studies that I cite in my written testimony that do roborate the fact that there is an unexplained mortality or increase mortality. I have seen this phenomon at firsthand. Let me just e you a hypothetical case.

News comes down to, say, a county medical care facility that they going to close and get out of the medical care business, which by the y is happening very frequently.

Almost immediately, one can count, monitor, and observe the reases in death where people die. I will give you an example. It ppened in Michigan. When such an announcement was made, re was one elderly lady who had been living in this facility for 30 years. She said, "I am not going to move. After all, I have lived most of my adult life here and this is my home and I am not moving." She stopped eating and literally gave up life and within 1 week she was dead.

There were a number of other cases. I am currently involved in my seventh year with the State of Pennsylvania with a statewide program involved with preparing persons for relocation, trying to give them support and prepare them for making the inevitable change in their living situation.

We have dealt with several thousand cases and this same sort of phenomenon occurs. We have found that age makes a very critical difference. We have found, in fact, that people who are over 80 years of age are much more susceptible to this kind of relocation than, say, people under that age group, not to say all people under 80 would not suffer, but we have found this phenomenon does occur regularly. It just does occur too frequently for it to be a coincidence. I think it is really definitely related to the idea of moving.

Mr. **Roybal.** Your studies are confined to people who suffer stress and pressure and even death, from care homes rather than from apartment to apartment; isn't that true?

Dr. **Pastalan.** In my testimony, yes, but I do cite a number of studies following community-based people.

Mr. **Roybal.** This is from apartment to apartment?

Dr. **Pastalan.** Yes.

Mr. **Roybal.** What do those studies indicate?

Dr. **Pastalan.** Let me read a paragraph from my testimony:

> Shahinian, Goldfarb, and Turner in 1968 compared death rates for involuntary relocatees to a control group which was not relocated. Support was revealed for the previous findings that those having moderate physical impairment, severe brain syndrome, and severe motor impairment are likely to experience negative consequences and higher mortality rates.

We are talking about age; we are talking about health status. When we find people that reflect these characteristics, we really do have a very special group and we have to be extremely careful in how we deal with a situation where, in fact, a moving can be lethal.

Mr. **Roybal.** Doctor, the committee was told this morning that condominium conversions do not really present such a big problem for senior citizens. What is your opinion?

Dr. **Pastalan.** I think it is an absolutely major disruption.

If we are talking about 140,000 conversions this year, and if we are talking about somewhere between 20 and 40 percent of the residents that will be involved in these conversions as being elderly people, I think the problem is major.

Mr. **Roybal.** The problem is major not only from the standpoint of finances but also from the standpoint of stress, pressure, health, and in some instances even death; is that correct?

Dr. **Pastalan.** Absolutely. I do not think we recognize the fact that there are probably an uncounted number of elderly people who are living in apartments and so on who probably ought to be in nursing homes, for instance. We do not know how many people, in fact, are living in their homes and should be living in nursing homes and how many people we will be disrupting in this conversion process.

We need to recognize the dimensions of the problem, again not to vell on only the negative and not to say that conversions cannot cur, but I do think we need to recognize the tremendous dimensions human health and welfare.

Mr. ROYBAL. Doctor, may I thank you and Ms. Shea, Ms. Eager and s. Woodley for your testimony. The committee will greatly benefit om the testimony you have made. The report will be prepared, and er it is printed we hope to make it available to you. In the meantime, there is any material you would like to submit to the committee fore the file closes, which will be about in another week, additional aterials, we would be happy to receive them. We thank you for your ne.

Our next panel of witnesses are Ms. Cushing Dolbeare, Mr. Giuseppe ecchi, Mr. Jack Studnicky, and Mr. John Martin. Mr. Cecchi will be r first witness from this panel

STATEMENT OF GIUSEPPE CECCHI, PRESIDENT OF INTERNATIONAL DEVELOPERS, INC.

Mr. CECCHI. Mr. Chairman, members of the Select Committee on ging. Thank you for inviting me to speak to you today. My name is iuseppe Cecchi and I am president of International Developers, Inc. ly firm, in the past 5 years, has developed numerous projects in the 'ashington metropolitan area, some of which are condominiums, ome conversions. IDI's first experience with condominium conversion as in Parkfairfax.

The Parkfairfax apartment complex was purchased by IDI in ebruary 1977. Parkfairfax consists of approximately 1,680 townhouse nd garden-type dwellings on 132 acres built in the 1940's by Metroolitan Life Insurance Co. to house employees of the New Deal.

Unfortunately, after Metropolitan sold the apartments, maintenance of the project was reduced and deferred at a time when, due to the ge of the buildings, good maintenance had become critically important. Consequently, the project had reached a dangerous state of disrepair nd was rapidly deteriorating. Electrical, heating, and plumbing ystems had decayed to the point of obsolescence, and without major epair and replacement the buildings would have eventually become nfit for human habitation.

At the time we acquired the property, it was clear that the modest ash flow generated by the rental operation could not by far justify r pay for the substantial cost of the most needed restoration which vas estimated to exceed the $10 million figure. Conversion to condominium was the only way to save Parkfairfax from complete deterioraion that would have resulted in the displacement of 1,680 families, several of whom were elderly and living on fixed incomes.

In developing the program for the revitalization and conversion of Parkfairfax we set forth two basic goals:

One: To offer a privately financed solution to the need for housing riced in the midthirties.

Two: To offer moderate income tenants the opportunity to become homeowners for a net yearly cost comparable to the prevailing street ent of their units.

The achievement of those goals was made possible by the development and the implementation of a program consistent with the special characteristics of Parkfairfax. Because the buildings were originally soundly constructed and had been subsequently modernized, our program limited to a minimum the restoration work inside the units. Substantial money was spent in the restoration of the exterior common elements the replacement and repair of the basic utility systems—electrical, plumbing, heating—and the creation of new adequate recreation facilities.

In essence, our program restored the project to a stable level of efficient operation and improved its environmental quality by performing the work which the individual homeowner could never perform itself, leaving to the homeowner's initiative and free choice the performance of interior improvements in his own dwelling unit. This program enabled IDI to offer the basic dwelling units at exceptionally low prices.

Further economies were realized by renovating the units while they were occupied. The cost of renovating each unit's physical plant was, in part, underwritten by the continuous flow of rental income. From a human relations standpoint, this method of renovation was virtually a necessity. Many of the residents of Parkfairfax are elderly and have lived in the community for one to three decades. Even temporary displacement might have worked a severe emotional and financial hardship of these residents.

In fact, out of the units that were occupied at the time the official notices of conversion were given village by village, 72 percent were purchased or leased by existing Parkfairfax tenants.

I am just now starting the conversion of another large apartment project namd Belle View, located just south of Alexandria, where I will implement a program similar to the one used at Parkfairfax and I hope to achieve similar results.

My feeling is that in the years to come the condominium form of home ownership will continue to take the place of lower priced single family homes in the Washington metropolitan area. From what we can see, in today's housing market, condominium ownership will represent an increasingly attractive form of housing. The grouping of dwelling units into buildings makes it less expensive to build compared to single family houses. There are comparable economies in the operation and maintenance of multifamily buildings. And, then there are several other cost savings resulting from the possibility of concentrating large number of residences in the proximity of public transportation systems, and other facilities available to the public.

Fifteen years ago there wasn't a single condominium unit in the Washington metropolitan area. Today one out of every three units sold is a condominium. This phenomenon is indicative of the trend to the condominium form of ownership. The cost of inflation and builder financing have driven the cost of housing to levels far above what many groups, such as the elderly, for example, can afford. Condominium conversion clearly is one means of producing lower cost housing to meet the demands of groups of people currently not able to afford to own other types of housing.

The reasons why the price of converted units is far below the price of newly constructed units are many. Generally, the major portion of the costs of a converted unit was expended 10, 20, or 30 years ago when the property was first developed and the unit built. The conversion normally involves restoration and various soft costs like financing and marketing, which keep increasing with inflation, but the bulk of the cost still remains fixed. Furthermore, value of the existing improvements is closely related to the current rent levels and to the net cash flow. In the case of older projects, the physical plant is often deteriorated to the point where substantial investment in major replacements is required. Such investments are rarely justified by the rental cash flow.

Starting from the relatively low cost of the existing units, the developer has the choice of the degree and level of restoration to be performed, which in turn determines the sales price of the finished product offered on the market. If the sales prices are kept down to moderate levels, the restored unit can be purchased by the majority of the existing tenants residing in the converted project. Conversely, if the amount of restoration drives the sales price to high levels, the majority of the existing tenants will probably not be able to buy and the conversion will cause mass relocation with all the related problems, especially for the elderly living on limited incomes.

As part of IDI's conversion of Parkfairfax many special programs were offered specifically designed to meet the needs of the elderly. For example, discounts up to $10,000 per unit were offered to all tenants residing in the project at the time it was acquired by IDI.

A special program was established specifically for elderly senior citizens over 70 years of age and with over 10 years of residency. This group was offered special discounts of $2,000 per unit above regular discounts given to the other tenants.

For those tenants who did not wish to purchase their units, long-term leases were offered for terms up to 5 years. IDI in its many years of development and conversion has never evicted a tenant. Either through our long-term leasing program, available to all tenants who do not wish to purchase, or through the special discount programs available to would-be purchasers, the special needs of the elderly can be met.

An interesting improvement to our program is being implemented in the conversion of Belle View, in conjuction with the Fairfax County Redevelopment Housing Authority. Fairfax County has agreed to purchase from IDI a number of units occupied by tenants who cannot afford to buy or rent under the programs offered by IDI, and are eligible for section 8 public housing subsidy. The county will continue to lease those units to the existing tenants at subsidized rental rates. This program will provide a considerable number of units for the specific purpose of maintaining a stock of rental housing in this development for elderly and fixed-income tenants.

At Parkfairfax we proved that a properly done conversion from rental to condominium can be a blessing for all parties involved: The developer, the locality, the residents. I believe that this demonstrates that the private sector of the economy can be responsible in redeveloping housing without serious dislocation or displacement.

Without impediment from unreasonable governmental controls, special programs can be offered which meet the basic needs of the elderly and other groups of limited or fixed incomes.

As I previously stated, the choice on the type of restoration and conversion program rests with the developer. While all projects are different and require different planning, the tenant-oriented program implemented at Parkfairfax can be applied to the majority of moderate rental projects of a certain age, largely occupied by senior citizens living on moderate income.

In order to expect developers to adopt tenant-oriented conversion programs and create alternatives to higher priced housing, certain incentives need to be provided to the developers. For example, to the extent that local governments receive substantial windfall increases in tax revenue from a conversion above that collected as a rental project, some of the revenue possibly can be returned to the developer in the form of reimbursement of any special discount granted to elderly tenants. This would provide a direct mechanism for him to provide equal incentives to would-be purchasers. Clearly this inducement would be generated by the State or local government. But Federal support of the concept would increase the probability of local and State governments participating.

As another alternative, Federal programs could be established which provide favorable loans to elderly purchasers, to enable them to afford to buy converted units. These loans could be at low interest, at no interest, or at interest accruing to the maturity date. The borrower would be required to sell back the unit to the Government at preestablished appreciated value and the Government would realize the appreciated value of the unit to offset the cost of the subsidized loans.

As another alternative, units could be purchased by the Federal Government at a premium from developers, say 2 percent above public price, so that the developer would then have the incentive to identify a greater number of units for groups who would qualify for federally subsidized programs. The Government, as owner of these units, would benefit from the appreciation of these units over time. This latter program would benefit everyone; the elderly would have the opportunity to lease at a reduced rate subsidized units from the Government, the developer would have received a premium for providing the units to other than the general public, and the Federal Government gains, inasmuch as they place a significant number of families in subsidized units while realizing substantial appreciation in value at the time of future sale of the units, which would offset the cost of rent subsidy.

Thank you Mr. Chairman, for giving me the opportunity to come before you. I can assure you that my company as well as several other members of our industry are committed to cooperate with the Federal and local governments in providing housing to meet the needs of all groups.

[See app. 4, p. 93, for additional material submitted for the record, by Mr. Cecchi.]

Mr. ROYBAL. Thank you very much.

At this moment we have a rollcall on the floor. The committee will recess for about 7 minutes, and then we will resume testimony.

[Brief recess.]

Mr. ROYBAL. The committee will now resume its hearing. The next witness is Mr. Jack Studnicky.

STATEMENT OF JACK STUDNICKY, PRESIDENT OF JPS ASSOCIATES

Mr. STUDNICKY. Thank you, Mr. Chairman.

I am president of JPS Associates, a real estate marketing firm. Currently I reside in Miami Beach, Fla., and I believe being in Miami gives me the opportunity, on a daily basis, of having immediately in front of me the opportunity of surveying the elderly situation as it exists. I don't believe a single day goes by that I don't see some 50 elderly people trying to move around in the buildings with wheelchairs and walkers and three-legged canes.

Many of these people, who have been induced to retire in Miami, were reasonably affluent. I believe the problem we should address today is not concerning the people who can buy but those who cannot afford to buy and are impacted by the condominium conversion.

In many cases developers have been maligned by the press and, to some degree, that is not a fair situation. I think many of the things we read in the newspapers are written by people who want to sell newspapers with something topical although it is not necessarily the way the situation is in reality.

I have provided you with negative articles in this regard which concern a project we are currently involved with. You will read that we treat these people like animals and we are throwing them out into the street.

In the history of my company we have never evicted anyone and never had any kind of situation like that. That kind of sensationalism gets people stirred up. I don't believe the situation is as traumatic as the situation I witnessed here today.

The reason I came to testify before this esteemed group is that some alternatives are definately required. I believe there should be subsidized shelter provided. Incentives have to be put back into legislation so the continued development of rental properties will exist.

In addition, I think there should be aid as relates to health-care facilities. We are converting a building where the average age is 74. I would say 30 percent of these people don't belong in condominiums or rental property. They really belong in health care-facilities.

I would like to share with you a case study. The first time I walked through this particular facility I was with an associate. We felt sick when we left, recognizing the squalor these people were living in. The building was 13 years old. The carpet had not been replaced in 13 years. There were holes in the roof. The place was absolutely derelict. There is a health club which the tenants were supposed to be able to enjoy. I have never been in a Mexican prison, but I have heard stories about them and this place looked like a Mexican prison.

The structure is on beautiful Biscayne Bay in Florida. It had boat docks which were washed away many years ago. The tenants were paying very low rent. The apartments are spacious and rental prices, in comparison to other rental units in the area, are below average. Many of the residents are elderly and a few are handicapped. It was a controlled building and the developer could not put money back into it so the building continued to become rundown.

There were derelicts and drug addicts sleeping at an old hotel next door, on the corner of West Avenue and McArthur Causeway. There was drug trafficking in the building. People would pull up their boats on Biscayne Bay and unload their drugs into the garage of this building. They had a security guard who had been there for many, many years. The reason he stayed was that he was also a numbers runner and this was his place of business.

Once we identified the problem, we recognized that it would be a difficult conversion. It would bring a tremendous amount of trauma to the people living in the building. We talked with the mayor o Miami Beach, Murray Myerson. He understood the situation and wa very helpful in offering solutions to the problems. He suggested meeting with the tenants. The mayor and I worked out a progran which we thought would alleviate, to some degree, the problems thes people would be confronted with. We were going to convert the building and there would be an investment of some $5 million. There woul be no way that these people would be able to buy. In my discussio with the mayor we tried to come up with a solution to the problem

I might also point out that the vacancy factor was one-half o 1 percent, so we had a very tight market. We developed the followin plan: We would tell the people what the prospects were, we would te them that the building was definitely going to be converted, and w would urge them to leave Miami Beach, since it is being turned bac to the luxury area it was some 15 years ago, and we would warn then that this would be the time for them to make their plans to relocate

At the meeting the tenants became very disruptive, fighting amon themselves, with leaders standing up and stating that they were goin to stop the conversion. One of the local commissioners came in an told the people that they would not be put off the beach.

Frankly, I believe these people were being misled. In actuality th building was being converted and the people would have to leave an no one should make promises which are not true.

The meeting, to make a long story short, deteriorated. The pla that the mayor and I had, which we believed would remedy th situation, did not work. The meeting fell apart, and the press treate what had happened very, very poorly.

On February 5, 1980 the residents were notified that the buildin would be converted to a condominium. They were offered relocatio expenses of $2,000 if they moved out within 120 days and $1,500 i they moved out after the 120 days but before 160 days. The respons to the offer was overwhelming. Within 1 month after the notice 15 residents had found housing. Within 2 months approximately 24 residents had signed up to receive the relocation expense. The followin is a breakdown of where residents are locating:

Less than ½ mi from Plaza West	6
More than ½ mi but less than 2 mi from Plaza West	2
Other areas of Miami Beach	8
Out of the area (Broward County, out of State, seasonals returning home) and unknown	7

Fifty percent of the people have relocated without having to leav Miami Beach property.

In addition, a relocation coordinator was hired to assist the resident in finding other residence. The relocation coordinator spent many hour looking for apartments, counseling residents, advising residents o where to look, and personally taking them to look at apartments

Many of the residents are elderly, looking upon Plaza West as thei retirement home and intending to spend their remaining years ther among friends. Change at this stage of their lives is very traumati and frightening. Many have lived there since Plaza West opened it doors 13 years ago. Many depend on each other for help, and they ar holding onto their last hope of independence. Many are widows wh find it difficult to get out. They are frightened.

However, there is a bright side too. A few residents were able to move into subsidized housing and pay lower rent. Some of the elderly moved into hotel-type arrangements where maid service, meals, and linens are provided. A few were just happy to move and receive the $2,000 because they made the decision to relocate near their families out of State.

Many of the residents, once they made up their minds that there was no alternative but to move, accepted the conversion and were able to put everything in the right perspective.

We believe that 6 months notice of condominium conversion is sufficient to notify tenants. I think this case proves it. There is housing in Miami Beach. It may not be at the rental prices of Plaza West but rental apartments can be found. Some residents have had to pay under the table to rent apartments and some housing is below standard. Shortage of rental housing in South Miami Beach has been caused partly by the South Shore development plan which prohibits new construction in a large area of South Miami Beach. Also, there is housing for seasonals only, as many places close when the season is over.

Condo converters should pay toward the relocation expenses of residents. Security deposits should be refunded when people vacate their apartments. Cities should be more involved with the residents of condo conversions. Not one person from the city of Miami Beach government came forward to assist residents or advise them where housing would be available. I feel that what many of them did was grandstand because of the traumatic issue at hand.

Retirement homes are desperately needed and should be built on a large-scale basis. There is a 2- to 3-year waiting period at most retirement homes. Some residents resent the Government permitting thousands of foreigners into the country while providing them with food, housing, and clothing and they receive no help. Not one organization or church has offered to assist residents here at Plaza West.

We believe, obviously, that some type of incentive financing should be offered to investors who purchase condo units and rent to elderly tenants.

[The prepared statement of Jack Studnicky follows:]

PREPARED STATEMENT OF JACK P. STUDNICKY

Representatives, ladies and gentlemen: Thank you for the privilege of speaking before you. I will be delighted if my experience and expertise can contribute some light on the subject at hand.

My organization, JPS Associates, has been responsible for the marketing of thousands of condominium units in the states of New York, New Jersey, Virginia, Maryland and Florida. We have a staff of 65, and at present are engaged in the conversion of properties in the New York and Washington areas and four major apartment complexes in the Miami Beach/Hollywood, Florida region. You may know some of these: the Diplomat Tower, the Hallmark, Belle Plaza and Plaza West.

First: Let's put the condominium and the condo-conversion in their right perspective in terms of their social and economic implications.

The condominium is a symptom of our time: Part of the continual change in lifestyle we are going through.

At the pace we are moving even the words "Condominium Conversion" take too long to say. A new word has been created for our vocabulary: Condoversion.

In the past 50 years we have gained more knowledge than in the previous 5,000 years!

Since the first South Florida condominium was built in South Miami Beach in late 1962, 74,000 have been sold in Dade County alone.

An indication of the acceleration in this field is that 62,000 were sold in the past decade.

The people who bought in the mid-60's paid only an average of $10,000 per unit. Today, the average selling price is around $65,000 in Dade County. But it took hard-sell to convince people to buy.

Homes are still thought to be a better buy than condos, yet between March, 1979 and March, 1980 the average used condo appreciated 50%, versus 21% for the average used home in Broward County.

All moderately-priced housing is now being built many miles west of the ocean. Lakes are even being created to substitute for the ocean.

Young people—single and couples—buy their homes and condos in this region since ocean sites are far out of their mortgage capability. This is also the location of low and medium-priced rental accommodations; again, the waterfront being beyond the average rental range.

The elderly have been fortunate in having low rent for the past two decades due to depressed prices in Florida's bust or boom real estate economy.

The condo-converter is a much maligned creature of our society, yet he is a benefactor. Setting aside the improvements that he performs on properties for now, let's consider how his efforts benefit condo buyers.

It is often for the first time that these people are property owners because many people hesitate throughout their lives to purchase real property unless it is necessary. So, for the first time (or otherwise) they have been provided with a tax advantage—actually a tax shelter.

The condo owner's purchase has eliminated considerable mental stress caused by fear of rent inflation. He even has a vote on any increase in the cost of amenities or maintenance.

The converter has provided the owner with a unit that has historically appreciated faster than inflation. He has provided him with an estate that he can will to his heirs—a positive psychological factor as people get older.

And them, there is pride of ownership that goes with owning your own place.

Yet the condo converter is more often portrayed in a negative light.

This is due to an overrepresentation by the press, tenant association and elected officials, of the fears, anxieties and hostility of apartment dwellers.

We have encountered, and so have other developers, actual visciousness on the part of some tenants' associations. They intimidate other tenants it they go near sales office to get the true facts. Their ploy is to harass the management through deliberate misinformation and unsubstantiated rumors about the developer's intentions. Their objective is to force extra concessions or forestall the conversion entirely by causing financial hardship on the developer.

Currently embroiled in this controversy are the Diplomat Tower and the Hallmark on South Ocean Drive in Hollywood, Florida. They were purchased by the Daon Corporation, a California-based company, which was surprised to uncover a virtual vendetta against the conversion since their plan involved renovating and upgrading older buildings with concessions to the tenants to encourage them to remain.

To illustrate, this is a statement that appeared in a recent Diplomat Tower Tenant Association Newsletter. "The Daon Corporation has the right to retain control of the Condo Association forever and has a lien on all units, which means a cloud on the title." This is outrageously false and we even make sure they have title insurance to protect their title.

Their statements to the press are equally incorrect and inflamatory. For instance, they stated that the average purchase price of the condos was $170,000 with the buyer's annual payment being $27,500 on a 15 percent interest rate mortgage. Actually, the average apartment is priced out at about $130,000 with a 13¾ percent mortgage, with annual payment of only $14,600.

We are not the only organization in Florida under uncalled-for attack. A Canadian group has just announced its plan to convert The Roney Plaza, one of the largest in South Florida. Although they are not obligated by law to do so, the new owners will be letting tenants remain there up to 2½ years. While this is because there is no overriding economic necessity for rapid conversion, it is exceptionally generous. Yet a Roney resident immediately announced that he is organising a rally and rent strike against the conversion. The statement to the press is that they are protecting "the old, the sick and the infirm." It sounds like they consider the luxurious Roney Plaza to be a county hospital.

We have found that the only way to avoid this turmoil, if we are given half a chance, is through a program of communications and mutual understanding. A key point to remember in this two way communication is that it may be your property—but it is their shelter. Until the developer appreciates this viewpoint, he will have a problem.

We have achieved considerable success through a one-on-one interface with the tenants to alleviate their fears. We form a team who research the region for alternative housing, either lower-price condominiums or rental units. Situations vary but in many cases we will establish a moving fund—as much as a quarter of a million dollars in order to relieve hardship—to enable tenants to move to new shelter. We have provided an allowance for complete remodeling, including new appliances. The tenant is given thousands of dollars in mark-down from the new selling price if he decides to buy. If he prefers to move, we often offer large cash incentives to accelerate the date of moving, which many take advantage of. On the other hand, we have extended leases to six, to nine, and to 12 months to prevent distress.

These factors have gone a long way to relieving anxiety and in the final phase of the rehabilitation, we have actually received commendation for our efforts.

Our experience has pointed up the critical need for more affordable housing. If more rental units were available, the pressure would be relieved on the condominium converter.

This is where the Federal Government must take its responsibility.

In a misguided action, the incentives to develop rental properties were eliminated. The construction of new rental buildings has declined markedly ever since a change in Federal Tax Laws was made in 1976, reducing the tax advantages.

Prior to that, there had been a constant flow of investment money coming into rental properties. Before the tax law change, investors could shelter larger portions of their income by investing in new rental property. The IRS permitted an accelerated depreciation allowance as a tax deduction.

The basis for the allowance was logical; the apartment declined in value each year from wear and tear, so the investment declined. Therefore, a tax deduction was in order.

This also had a beneficial cumulative affect. When the depreciation was used up, the investors would sell the building and buy another rental building to start a new depreciation schedule. This meant the builders were busy providing new buildings. Thus the investment money kept flowing in for new rental construction.

Also crucial to this cycle, rental property developers were able to deduct interest paid on their construction loans in a single year. Now the interest must be amortized over a number of years, reducing the upfront money available for more rental construction. It also reduces the amount of the deductions, further cutting back the incentive.

The Government is also responsible for encouraging the sale of condominium buildings for conversion. If the owner of the condo converts it himself, the IRS classifies him as a dealer. He is taxed on the profit at the ordinary income rate.

However, if the owner sells to a developer, the latter is taxed on the conversion profit on the basis of capital gains—a lower tax rate.

The Government is constantly talking about rent controls. This is a serious detraction to the sale of rental housing.

It is very noteworthy that the Board of County Commissioners of Dade County, 15 days ago, passed a resolution asking the Federal Government to enact the following legislation: Amend the Internal Revenue Code to increase declining balance depreciation to 300%, taxed at capital gains rate, if the property is held for more than one year; that construction loan interest be permitted to be deducted as an immediate expense rather than capitalized over 10 years; and savings and loans be permitted to issue longer term mortgages and graduated payment mortgages.

Rental controls must be avoided because the low return on investment keeps development money away. In New York, owners have abandoned some 60,000 rent controlled units because of increased operating costs.

Municipal governments also play their part in causing condo housing problems. Putting a cap on density may be an environmental control, but it practically eliminates new multi-family buildings in the area.

Some action is being taken in this direction. California has passed a statewide zoning law that features a "density bonus". Dade County Commissioners have a similar ordinance under consideration to encourage rental housing development during periods of short supply. It would grant a 20% residential density bonus for rental housing on land where it would not normally be permitted. They just passed an ordinance to encourage the construction of rental units in the vicinity of proposed rapid transit stations, centers of employment, schools, parks and commercial areas, and other activity centers.

A condo conversion market typically begins when rental building owners cannot keep step with rising operating expenses and their investment is providing too low a return.

They cannot, or are not willing to, spend the extra money needed for rehabilitation of properties—in many cases just to maintain adequate housing. Often a large injection of capital is required for improvements. The rental apartment owner is unable to pass this cost on to the renter. In terms of upgrading the environment in the area of properties, the condo converter is a major benefactor of our society.

Miami Beach is a case point. It has been going through the classic concentric circle life cycle. The area that was once the center of attraction has degenerated as people gravitated north to the newer hotels and condominiums. This southern area is due for rehabilitation. People who went there to retire now find themselves in an undesirable environment. And the circle keeps moving northward as the years go by.

As an example:

We are revitalizing Plaza West, a 347 unit condo conversion, that was a luxurious apartment house in Miami Beach. The developer is rebuilding the docks, updating the building's facade and pool area, creating a new landscape and upgrading the units with complete renovations and appliances. These renovations and improvements are estimated to cost $5.5 million.

These beneficial contributions to society are ignored or overlooked.

Let us look at some other facets of the Florida situation: Although the State has preempted the regulation of condominium conversions, a number of municipal governing bodies have been making laws to restrict them. This Government intervention caused a flood of apartment owners to register future condo conversions before the end of the year. However, the State finally took matters into its own hands, enacting a law on May 1st, which permitted tenants in a building for six months to stay nine months without an increase, and a year if the vacancy rate is less than three percent.

There were 16,000 apartment units converted in Florida in 1979, but the impact was not as great as it might appear.

Some 40 percent were purchased by tenants, 29 percent moved from other rental apartments, freeing, you will note, that many apartments—4,747—for new tenants or displaced persons.

Of the 60 percent who did not purchase the condos, 8 out of 10 moved into rented apartments. The shortfall represented one-half of 1 percent of the total apartments in the State. Again, of the 60 percent not buying, only 22 percent were 65 years or older.

Further, of the persons who moved from the condominiums being converted, 12 percent actually purchased condos in other buildings, 8 percent purchased homes, and 2 percent rented homes.

Our personal experience with Plaza West, mentioned previously, still in the process of conversion, indicates 18 percent of the tenants have located less than one-half mile from their previous apartments; 24 percent have settled in other areas of Miami Beach.

It is interesting to note that a number of the tenents really underwent no hardship in that they turned out to be "snowbirds" who owned their own places "up north".

Despite the registration rush at the end of the year, the pace of conversion in 1980 has even been as hectic. To date this year in Dade County, conversion registrations reached 5,310, 1,100 more than were filed in all of 1979. Broward County filing so far in 1980 covered 2,964 units, 200 less than all of 1979.

These two counties have 44 percent of the State's rental apartments—over 250,000 rental units.

You have all heard of the vast influx of foreign or offshore funds pouring into southern Florida. Much of this money is going into apartment buildings and condominiums, making these a speculative commodity. This influence aggravates the situation for people buying retirement shelter since competition raises prices, but the area is experiencing a boom which is a hedge against recession.

I would like to point out that we should not lose sight of the fact that retirees are an important economic factor. In Broward County alone, they account for a total revenue of over one billion dollars in retirement income: The equivalent of a very large industrial payroll. If anything should happen to this revenue, it would seriously affect retail trade and the service industries, particularly.

One of the latest trends in attempts to assure rental housing is the proposal by local governments that they have the first right to acquire empty condos after the building's condo association has refused to purchase the units. This, of course, would put municipal governments in the housing business. We have here a case of nature abhorring a vacuum: If action is not taken by the Federal Government, someone else will step in.

To stimulate construction and rehabilitation of rental housing, Dade County commissioners moved recently to create a Rental Housing Authority empowered to (1) provide liaison between developers and the county; (2) promote construction and financing of rental housing, (3) study the market, (4) serve in an advisory capacity to the county, and (5) promulgate rules and by-laws necessary to implement its powers. Should the state enact legislation creating a statewide rental housing authority to finance rental housing, this Dade County authority would be ready to function for the county.

However, I feel that this is a national problem and the Federal Government has the responsibility for subsidizing rental housing for the elderly. Construction of health care facilities for the aged should be given priority. Large numbers of senior citizens need better attention than they get living in condos. And finally, condos on Miami Beach are not the answer—except for the affluent.

I hope my remarks have helped to add some light to your deliberations. Thank you.

[See app. 2, p. 88 for additional material submitted by Mr. Studnicky.]

Mr. **Roybal.** Thank you, Mr. Studnicky. We will be pleased to hear next from Ms. Dolbeare.

STATEMENT OF CUSHING N. DOLBEARE, PRESIDENT, LOW INCOME HOUSING COALITION

Ms. **Dolbeare.** Thank you Mr. Chairman. I want to summarize my statement and ask that it be included in the record.

Mr. **Roybal.** We appreciate that, and your statement in its entirety will be included in the record at this point.

[The prepared statement of Ms. Dolbeare follows:]

Prepared Statement of Cushing N. Dolbeare

The National Low Income Housing Coalition appreciates this opportunity to testify on condominium conversions and the housing needs of low income elderly people. We are a coalition of individuals and public interest organizations devoted to seeing that all low income housing needs are met. This will take intensified attention and commitment and will require comprehensive approaches to address both elderly and nonelderly housing needs. Critical as the housing needs of elderly people are, they are less likely to be neglected than those of others. Critical as the problems of condominium conversions are, they are still less acute than other causes of displacement and intensified housing need, including housing abandonment and rent and utility increases.

Most elderly people are home owners: 71 percent of all elderly, 58 percent of Black elderly and 54 percent of Hispanic elderly. To be responsive, elderly housing programs must address their needs. Despite this, assisted housing programs for low income people focus almost entirely on rental housing. In fact, lack of home ownership assistance is, in my view, the biggest federal housing program gap. The only program serving elderly home owners is the tiny Farmer's Home very low income home repair loan and grant program, which assisted about 7,500–10,000 households last year. This is available only to elderly owners living in rural areas.

Some communities have used their community development block grant funds to assist elderly owners, but this is spotty and smallscale.

In 1978 the Senate approved an amendment which would have permitted Section 8 assistance to be used by elderly owners to pay off rehabilitation loans. This provision died in conference. It was reintroduced last year by Rep. Parren Mitchell, but has not been acted on.

While the best known elderly housing program is the so-called "202" program (named after Section 202 of the Housing Act of 1959), which is operated by nonprofit sponsors, the largest elderly program is the low-rent public housing program Its successor, Section 8, also is providing substantial numbers of elderly people with decent shelter at costs they can afford.

Looking at all HUD-assisted programs, 1.1 million of the 2.65 million households occupying subsidized units in 1977 were elderly households. This includes public housing (501,000), Section 202 (45,000), Section 8 (251.000), Section 236 (147,000), rent supplement (52,000), Section 221(d)(3) below-market-interest-rate (19,000) and Section 231 (43,000). In addition, the Farmer's Home Administration was assisting 23,000 elderly homeowners purchase their houses through its 502 interest credit program and was providing rental housing for some 70,000 elderly households through its 515 program.

In contrast to the levels of housing assistance available stand the needs of elderly people. Five million of the fifteen million households identified by HUD as in need of housing assistance are elderly. Their problems include both physically deficient housing—a threat to health or, sometimes, life—and housing which costs more than low income people can afford. Moreover, a steadily increasing number of elderly households are being displaced by condominium conversions.

Elderly households comprise 17 percent of all renter households, but they account for 74 percent of those with incomes below $3,000. In 1977, 1.1 million elderly renters were at this very low income level. Similarly, elderly households are 25 percent of all owners, but 39 percent of all owners with incomes below $3,000. In 1977, there were 1.3 million elderly owners with incomes below $3,000.

In 1977, the latest year for which figures are available on a national basis, approximately 15 million (15,018,000) of the 75 million households in the United States consisted either of single elderly individuals or households headed by someone aged 65 or over. Almost 30 percent of these households were rentes. A substantial portion were poor. 2.4 million had incomes below $3,000 and another 3.6 million had incomes between $3,000 and $5,000. 2.5 million of the 6.0 million elderly households with incomes below $5,000 were renters.

Looking at these figures another way, 40.4 percent of all elderly households had incomes below $5,000 in 1977. Another 32.6 percent had incomes between $5,000 and $10,000. Only 8.0 percent had incomes above $20,000. (See Table 1 for more details.)

A total of 36.7 percent, or 1.6 million of the 4.3 million elderly renter households either paid no cash rent or rented units for less than $99 per month. Another 21.3 percent paid rents ranging from $100 to $150 per month. Only 5.6 percent paid rents of $300 or more per month. (See Table 2.)

Significantly, there was a 40 percent increase in the number of units renting for $300 or more between 1976 and 1977, but only a 6 percent increase in the number of elderly households with income over $15,000, sufficient to pay these rents at 25 percent of income.

The rental units which tend to be prime candidates for conversion are those which rent for at least $150—about 42 percent of all rental units occupied by elderly people. Many are occupied by people with modest incomes who have difficulty making ends meet and are in no position to pay the increased costs which conversion creates. Data from the 1977 Annual Housing Survey show that just over half (50.2 percent) of the renters living in units which rented for $150–$250 monthly paid more than 25 percent of their incomes for rent. Almost one-third (31.1 percent) paid more than 35 percent. One fifth (20.4 percent), or 2.4 million, of the 11.4 million households renting units in this range had incomes below $5,000. Thus, if this is the primary universe from which conversions are drawn, it is clear that they potentially affect a good many low income people, a large proportion of whom may be assumed to be elderly.

Some three weeks ago, the National Low Income Housing Coalition and 29 other national, state, and local organizations sponsored a national low income housing conference. The conference considered low income housing needs comprehensively—elderly, families, blacks, Hispanics, Native Americans, rural people and urban people. I would like to share with this committee the conclusions and recommendations of the group which considered elderly housing needs:

Elderly people have a basic human right to live in dignity, safety, and security. They should be provided with housing opportunities to live, as they choose, in a variety of settings: in their own homes, in their neighborhoods, in housing built and operated with the special needs of elderly people in mind.

We call for a major expansion in construction of housing for elderly people, in developments on one or more sites, and large enough to be economically feasible and socially desirable, insuring that elderly people are not isolated from the communities and neighborhoods of which they are a part.

Elderly people unable to afford their present housing should be given assistance, in place unless they wish to move. This assistance should be available as a right for all elderly people needing it to reduce their housing costs to 25 percent of their incomes, and should be provided from a separate appropriation made in addition to any other appropriations or funds for housing assistance. The assistance should be made available to home owners as well as tenants. Unless substantial repairs are necessary, the subsidy limits of the Section 8 existing program should be followed.

DISPLACEMENT

Security of tenure is even more important to elderly people than to others. Elderly people should not be forced to leave their homes because of condominium conversions or for other reasons. Programs should be developed to assure that the elderly are either allowed to remain as tenants or provided assistance to buy their units.

In my view, there are a number of approaches which should be explored to achieve this objective. These should include automatic provision of Section 8 assistance as an entitlement, with funds coming on top of whatever Section 8 allocations are made to the locality and programs of unamortized second trusts or shared equity.

In either case, the basic public purpose to be served would be to enable elderly people to remain in their units. Federal assistance should be directed to this end. Our premise would be that ways should be found so that the federal government can pay the difference between 25 percent of income and the cost of remaining in the unit, with some reasonable cost controls so that the program does not become open-ended.

Under a shared equity approach, the amount of a first mortgage would be determined by the monthly carrying cost an elderly household could afford after paying for utilities and condominium fees. An unamortized second mortgage would be made for the remaining amount. When the mortgagor dies or moves and the unit is sold, the proceeds would be split by the share of equity each had.

For example, if a unit cost $50,000 and the elderly household could carry a mortgage of $5,000, the second mortgage would be for $45,000. Upon sale of the property, the elderly purchaser or his/her heirs would get 5 percent of the proceeds and the second mortgage holder would get 95 percent. If the appreciation of the unit were at or above the interest rate at which the funds were made available for the second mortgage (say, the Treasury borrowing rate plus ½ percent), then the program would be break even or make a profit. If not, the cost would be the cost of money plus administration.

The Section 8 existing housing program could also be adapted to deal with condominium conversions and other forms of displacement. This could be done in two ways. The first would be to use a straight Section 8 subsidy, typing the program to the local administering agency, but providing for issuance of Section 8 certificates to elderly households to remain in place, covering the assistance needed to enable households to pay fair market rents—for existing housing, moderate rehabilitation or substantial rehabilitation depending on the condition and treatment of the unit.

The second approach, which would be far less costly, would be to use the Section 8 assistance formula to cover mortgage and condominium fee payments on behalf of elderly households, with a provision for recapturing the subsidy, except for some or all of the equity built up by the occupants payments, when the unit is sold. This would reduce the cost of assistance to a fraction of the regular Section 8 assistance.

HOMEOWNER ASSISTANCE

The elderly housing shortage makes it imperative that assistance be provided to homeowners to maintain and rehabilitate their homes.

The homes of elderly people are often their principal source of security and savings. The Section 8 program should be extended immediately, with additional funds, to provide relief to elderly owners unable to pay for heat, light, taxes, or repairs, or a comparable assistance program should be made available. In providing assistance to elderly homeowners, the needs of rural elderly should be taken into consideration in proportion to their numbers and needs.

As part of a cohesive approach to overall housing needs, homes vacated by elderly people should be obtained, rehabilitated if necessary, and made available with appropriate subsidy to lower income families.

In light of the longterm energy crisis confronting this country, the Energy Crisis Assistance Program for the elderly must be made an ongoing and permanent assistance program for older persons who find themselves increasingly unable t meet the inflationary and skyrocketing fuel and utility costs.

SOCIAL SERVICES

Social services linked to housing is an integral part of the aging policy of thi country. Comprehensive funding must be provided to congregate housing services serving both urban and rural communities, in order to eliminate the inappropriat and premature placement of elderly persons in nursing homes. The program mus be expanded beyond the Section 202, 515 and public housing programs to impac on those elderly people living in other housing facilities.

INNOVATIVE HOUSING ALTERNATIVES ARE NEEDED

Present program regulations penalize individuals who elect to live in nontra ditional housing—such as single room occupancy, rooming houses, living with thei families or nonrelated individuals—in order to cope with rising housing cost Laws and regulations must be made so that programs providing benefits to th elderly can continue to be utilized by older persons despite nontraditional livin arrangements.

In order to allow the elderly to remain in their own homes and to make availabl more low income tenancy, assistance should be given in the development of ac cessory apartments. The tenants of those units should be eligible for rent assistance.

Incentives must be provided to state and local governments to provide propert tax relief to elderly homeowners and property tax rebates to elderly renters.

To meet cultural preferences and lifestyle needs, a program should be develope which would allow the elderly to receive assistance in order to live at home with thei families in an extended family situation.

We should recognize that the housing needs of elderly people cannot and wi not be met without a major expansion in housing assistance programs, and major restructuring of those programs. The absence of home ownership program for low income families, for example, affects elderly people in two respects: com munities are forced to build rental housing to meet the housing needs of large lo income families, so fewer elderly units can be built with the same amount money, and the market is eroded for homes which elderly people might wish sell if other housing alternatives were available.

The National Low Income Housing Coalition is now embarked on an exploratio of alternative ways of meeting the housing needs of low income people, includin the elderly. We cannot, in decency, proceed at our present pace—with the proble outstripping our efforts to solve it. We cannot afford to stretch out commitmen to a limited number of units over 15–30 years, while leaving untouched the critic housing needs of millions of others.

To this end, the Coalition suggests, for consideration and discussion, the fram work of a comprehensive approach to meeting low income housing needs. O proposal has three major, interrelated components:

An entitlement to housing assistance for all very low income households, pro ably through an expansion of the Section 8 existing housing program, whic provides controls over the quality and cost of the housing occupied.

A housing block grant program, to be closely tied to the community develo ment block grant program, with assistance limited to housing programs assistin people presently eligible for Section 8 or FmHA programs. We believe that mu of the activity here would be directed toward rehabilitating and conserving o existing stock for lower income people.

A variety of new construction programs, to meet urgent housing needs. addition to doubling and redoubling our elderly housing construction program we also need new construction to provide housing for farmworkers, for nati Americans, and for others for whom decent housing would otherwise be unava able. And, in addition to providing housing for low income people, we also ne programs which will provide access to new housing for young families and oth moderate income people.

Our approach would, we recognize, dramatically increase outlays for housi assistance within a fairly short period. But it would probably fit within our prese levels of budget authority, and would be able to be more responsive to changes needs, as well as meet them more adequately. The entitlement program would believe, cost about $10 billion, and would serve all very low income households, n a small fraction of them, as at present. Housing block grants at a level of $5 billi could generate a variety of programs suiting local needs. This would leave a substantial amount for a range of new construction efforts focused on urgent, unmet needs and, if we moved to front-end or capital subsidies with suitable recapture provisions, could probably generate far more units than our present programs.

In short, the Coalition is convinced that we have the capacity within this decade to deal adequately with our housing problems. But it will take imagination, initiative, and, above all, commitment: commitment of time, energy and financial resources.

TABLE 1.—INCOME OF HOUSEHOLDS WITH HEAD 65 OR OVER, 1977, U.S. TOTAL

[Numbers in thousands]

Income	Owners		Renters		Total	
	Number	Percent	Number	Percent	Number	Percent
Under $3,000	1,274	12.0	1,138	25.8	2,412	16.1
$3,000 to $4,999	2,224	21.0	1,420	32.3	3,644	24.3
$5,000 to $6,999	1,819	17.1	682	15.5	2,501	16.6
$7,000 to $9,999	1,883	17.7	522	11.9	2,405	16.0
$10,000 to $14,999	1,615	15.2	330	7.5	1,945	13.0
$15,000 to $19,993	769	7.2	137	3.1	906	6.0
$20,000 to $24,999	374	3.5	64	1.4	438	2.9
$25,000 to $34,999	318	3.0	66	1.5	384	2.6
Over $35,000	338	3.2	44	1.0	382	2.5
Total	10,614	99.9	4,404	100.0	15,018	100.0

Source: 1977 annual housing survey, pt. C, financial characteristics of the inventory, table A-1.

TABLE 2.—RENT PAID BY ELDERLY HOUSEHOLDS, UNITED STATES, 1977 (HEAD 65 OR OVER)

Rent	All households		Head 65 yr old or over						Elderly as percent of all households in range
			2 or more persons		Single persons		Total		
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Less than $70	1,497,000	5.8	99,000	6.4	563,000	20.4	662,000	15.4	44.2
$70 to $99	1,703,000	6.6	164,000	10.7	394,000	14.2	558,000	13.0	32.8
$100 to $124	2,056,000	8.0	134,000	8.7	314,000	11.4	448,000	10.4	21.8
$125 to $149	2,586,000	10.0	177,000	11.5	292,000	10.6	469,000	10.9	18.1
$150 to $174	3,185,000	12.3	165,000	10.8	285,000	10.3	450,000	10.5	14.1
$175 to $199	3,163,000	12.2	161,000	10.5	201,000	7.3	362,000	8.4	11.4
$200 to $249	5,064,000	19.6	220,000	14.3	264,000	9.5	484,000	11.3	9.6
$250 to $299	2,743,000	10.6	152,000	9.9	115,000	4.2	267,000	6.2	9.7
$300 or more	2,511,000	9.7	138,000	9.0	104,000	3.8	242,000	5.6	9.6
No cash rent	1,308,000	5.1	124,000	8.1	232,000	8.4	356,000	8.3	27.2
Total	25,815,000	99.9	1,535,000	100.0	2,761,00	100.0	4,296,000	100.0	16.6

Source: 1977 annual housing survey, pt. C, financial characteristics of the housing inventory, table A-3.

Ms. Dolbeare. We greatly appreciate not only the opportunity to testify but, more importantly, the fact that this committee is holding these hearings and investigating this extremely important problem. I want to begin with two caveats: (1) critical as the housing needs of elderly people are, they are less likely to be neglected than the housing needs of other low-income people and (2) critical as the problems created by condominium conversions are those problems are still in our view less acute than other causes of displacement that affect elderly people, including housing abandonment and rent and utility increases.

I am not saying this in order to in any way belittle the problem of condominium conversions, but only to make the point that we really need in this country a new approach to housing programs and housing policies that starts from the premise that housing is and should be recognized as a basic human right. We need to orient our housing policies and our housing programs around making it possible for everybody to achieve decent housing at costs that they can afford.

Last night in the Senate—this is a bit of a digression, but I think it is an important one—last night in the Senate a vote was taken which will have more impact on elderly people unless it is reversed than condominium conversions, and that was on the food stamp supplemental appropriation. It provided that housing subsidies paid to housing owners and housing managers on behalf of low-income households are to be counted as income of those low-income households for purposes of food stamps. Unless the House conferees on that supplemental bill reject the Senate amendment, that means that elderly people are either going to have to leave assisted housing by the hundreds of thousands—literally—or they are going to have to get along with no food stamps or only a fraction of the food stamps which they need and to which they are entitled.

Most elderly people are not renters. They are homeowners, 70 percent of them, and one of the biggest housing program gaps that we have is the lack of any kind of home ownership assistance for low income people. Mostly, when you say "elderly housing program," people think "202." There are about 45,000 occupied 202 units. It is a very good program, a very important program, but it is almost the smallest of the elderly housing programs, if you measure elderly housing by the number of elderly households that are living in assisted housing.

There are over 1 million households living in public housing. There are approximately one-half million households living in section 8 housing. There are households living in Farmers Home 515 assisted rental housing. There are many other rental housing programs besides 202. I think it is critically important that legislative committees and others who are looking at elderly housing needs and elderly housing issues look at the whole range of housing assistance programs that are now in place as well as the particular program which is restricted to elderly households.

About 5 weeks ago the National Low Income Housing Coalition sponsored a low-income housing conference which brought together participants from 47 different States all concerned about the housing needs of low-income people.

The elderly workshop at that conference came up with a series of proposals, which are included in their entirety in my testimony, beginning with the recommendation that elderly people have a basic right to live in dignity, safety, and security. We called for a major expansion in construction of housing for elderly people, in developments on one or more sites, and large enough to be economically feasible and socially desirable, insuring that elderly people are not isolated from the communities and neighborhoods of which they are a part.

Part of the problem created by condominium conversion is created by the fact there is simply not enough housing in the stock that is designed for elderly people. If there were enough elderly housing around, people would not have to live in the conditions that were described by my predecessor here. They would not have to live in substandard housing, and they would not then be victimized when the physical structure is "rescued" by condominium converters. But they are very often left to shift for themselves, sometimes with assistance and sometimes without assistance. So I think we need to begin by an adequate program of providing additional assisted housing for elderly people.

This year Congress appears likely to include the assistance for an additional 200,000 households under public housing section 8 programs and maybe another 100,000 households through Farmers Home programs. Fewer than half of those will be available for elderly people, so that the number of new units that will be provided this year by the Congress will probably be less than the number of units which are lost to the housing stocks through condominium conversions. Now, something has to give there.

Let me turn now to some of the specific measures which I think can be taken to deal with the problems of elderly people that are caught up in conversion. I think we ought to start with the recommendation that we need to find ways of making sure that elderly people don't have to leave their homes because of condominium conversions or for other reasons. There are two ways as I see that we could do this. My recommendations are not terribly different from those of Mr. Cecchi here.

The first would be automatic provision of section 8 existing certificates as an entitlement, so if an elderly person was unable to pay for shelter, that person could automatically, on top of whatever appropriation is made for the regular section 8 program, obtain a section 8 certificate which would entitle that person to a suitable amount of assistance. When I say a suitable amount of assistance, I say the section 8 existing level of assistance if the unit is not being converted. If the unit is being substantially rehabilitated, then the level that goes with the substantial rehabilitation program. That measure in and of itself would take care of the problem of affordability so that elderly people would not be forced to move. Obviously, it would be expensive.

One way in which the cost could be reduced would be to have a provision under which the Federal Government or a Federal agency would actually acquire title to the unit, provide the assistance and then, when the elderly person died or left for other reasons, the Federal Government would have title to the unit, and could either use it for another family or could sell it and probably regain a great deal of appreciation of the assistance that had been provided.

A similar way of working this out would be what we call a shared equity approach. The elderly person would pay what they could toward their costs and the Federal Government would make up the difference. In listening to Mr. Cecchi, perhaps the Federal Government could provide some insurance so the converters could hold as an unamortized second mortgage what the elderly household person could not pay.

When that person moves or dies, the equity would be shared and the Government or the converter, if it were an insured project, could get back the investment at that point. So that again would be a relatively inexpensive way in the long run, because these units have been appreciating rather rapidly, to provide the elderly people with the security they need and the opportunity to live without moving in units that are being converted.

I have indicated in my statement some other recommendations. I will be glad to respond to questions on those, but, in the interest of time, I will conclude my oral presentation.

Mr. ROYBAL. Thank you very much. Our next witness is Mr. John Martin.

STATEMENT OF JOHN MARTIN, LEGISLATIVE CONSULTANT TO THE NATIONAL ASSOCIATION OF RETIRED TEACHERS AND THE AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. MARTIN. Thank you, Mr. Chairman. I am John Martin, legislative consultant to the National Association of Retired Teachers and the American Association of Retired Persons.

We have devoted a good deal of attention to the problems that are created by condominiums and by condominium conversions, and we have incorporated in our policy several statements on this subject.

The above policy positions are based on letters received from our members and from the study of the condominium development in many parts of the Nation. We have observed there are some attractions to the form of condominium ownership, but we also have noted the abuses which have occurred throughout the Nation which have caused serious hardship for consumers, particularly older people.

Many local groups and persons distressed by conversions of rental properties to condominium ownership are appealing to the associations for direction and support in an effort to protect the interests of the older renters and to stop what is believed to be exploitive, arbitrary, and presumptuous acts by real estate interests which threaten personal and financial welfare of rentals.

The most direct response has been to seek passage of emergency legislation or a short-term moratorium on conversions with the emergency being extended indefinitely, if possible. From the standpoint of the renter, rather, moratoriums have not resulted in easing the situation and in some cases have exacerbated it.

There is a housing shortage in this country, and there is a housing shortage particularly for low- and moderate-income people. Until we face up to that and provide some responses for it, we are not going to solve the condominium conversion problem.

The building industry does not respond to housing needs for low-, moderate- or fixed-income people without Government subsidy and ownership of rental property is not lucrative enough to attract money on today's market. All of this causes distress to older renters occupying buildings subject to conversion.

Our purpose here is to suggest some guidelines to counter the impact of conversions. Federal legislation has not addressed this broadly except in S. 612, as amended, under consideration in the Senate, which was sponsored by Senator Chiles, which deals with disclosure of certain information and recreational leases.

S. 612 would also guarantee a minimum time to vacate upon notice of conversion, the right of first refusal, and a minimum time to consider purchase or rejection. The associations have offered testimony in support of S. 612 and will continue to support such legislation.

My statement is longer, Mr. Chairman. I would like to have it all included in the record, but I would like to summarize by a statement on the position of the associations.

Mr. Roybal. Without objection your statement will be included in the record at this point, and you may proceed.

[The statement of Mr. Martin follows:]

PREPARED STATEMENT OF THE NATIONAL RETIRED TEACHERS ASSOCIATION AND THE AMERICAN ASSOCIATION OF RETIRED PERSONS, PRESENTED BY JOHN MARTIN

I am John B. Martin, Legislative Consultant of the National Retired Teachers Association-American Association of Retired Persons. I am appearing here today on behalf of the Association membership to discuss some of the problems arising from the creation of condominiums and condominium conversions. Our Associations have had a long-standing interest in the development of housing for older persons. We have considered the problems arising in connection with condominiums, both new and converted, and have established Association policy in this area in the following terms:

"In the housing policy area, minimum national standards for disclosure and consumer protection for purchasers, owners and tenants in condominium sales and conversions should be established. Standards are particularly needed to deal with unduly long or unreasonable leases on recreational and other condominium-related facilities that were negotiated by the developer prior to transfer of governance to condominium owners. These same consumer protections should be extended to those living in mobile homes and mobile home parks."

Our Associations have also expressed ourselves in our State Guidelines with regard to this same subject matter by urging that each state ought to provide safeguards against arbitrary eviction in the event to conversion of rental units to condominiums and ought to protect the rights of purchasers of condominiums in accordance with findings and proposals of the Commissioners on Uniform State Laws.

The above policy positions are based on letters received from our members and from a study of the condominium developments in many parts of the nation. We have observed the important attractions in the condominium form of ownership but have also noted the abuses that have occurred throughout the nation which have caused serious hardships for consumers and threatened the use and acceptability of this form of housing.

Many local groups and persons distressed by the conversion of rental properties to condominium/cooperative ownership are appealing to the Associations for direction and support in an effort to protect the interests of the older renters and to stop what is believed to be exploitative, arbitrary and precipitous actions by financial and real estate interests which threaten the financial and personal welfare of the renters.

The most popular response has been to seek passage of "emergency" legislation or a short-term moratorium on conversions, with the "emergency" being extended indefinitely, hopefully. Presumably the moratorium permits renters, landlords and politicians opportunity to ease the situation, but moratoriums generally have not resulted in easing the situation and in some cases have exacerbated it.

The facts are that (1) there is a housing shortage; (2) the building industry does not respond to housing needs for low, moderate or fixed income people without government subsidy; and (3) development, ownership and management of rental property is not lucrative enough to attract money on today's market. Manipulation of mortgage money and high interest rates reduce the buyer's potential, particularly for people on fixed incomes. All of this causes distress to older renters who occupy a building subject to conversion to cooperative/condominium ownership.

Our purpose here is to suggest some guidelines which may be used to counter the impact of such conversions. Federal legislation has not addressed this issue broadly, except in S. 612, as amended, under consideration in the Senate, sponsored by Senators Stone and Chiles, which deals primarily with full disclosure of pertinent information and with recreational leases entered into by the developer with himself before converted condominiums units are sold. S. 612 also would guarantee a minimum time to vacate premises, a right of first refusal, and a minimum time to consider purchase or rejection. The Associations have previously offered testimony in support of S. 612 in 1979 and will continue to support such legislation.

Also, under federal law, when FHA or VA financing is sought for conversion projects, many regulations—including property disclosures, engineering evaluation, fair housing practices, and other consumer protection—must be met. Of tremendous significance is the availability of mortgage money for otherwise ineligible purchasers. These benefits should be called on by local jurisdictions.

State legislation has generally moved to temper the conversion process by extending renter-occupancy provisions (from 30–60 days to 90–120 days, for example). In June 1979. New York (S. 6413–A. 8298) enacted legislation to exempt renters from eviction if they elect to be a "non-purchasing tenant" and are qualified by being 62 years of age or older, have made subject property their primary residence for at least two years, have annual income of less than $30,000, and file the appropriate forms. This act applies only to New York City and probably will be challenged by court action.

A. MORATORIUMS

A moratorium on conversion must be justified on the basis that the group seeking the moratorum requires time to seek and legislate long-term solutions which take account of:

1. The right of the tenant to fair and considerate treatment in the light of his economic situation;
2. The legitimate property rights of the landlord;
3. The housing needs of the population affected by conversion;
4. The maintenance of property values, tax, revenue potential, and general welfare of the community.

B. TENANT ORGANIZATIONS

Renters of target property must organize and act as a unified group if they wish to counterbalance the political and economic power of the property owner. The tenant group—

1. Must have legal counsel;
2. Must have negotiating powers and accept responsibility for keeping the group united and disciplined;
3. Must work toward expanding its financial and political influence and must endorse and seek support of groups which are locally and statewide or federally active;
4. Must not seek age-related or special interest solutions to the detriment of the community-at-large;
5. Must focus on specific issues, such as, (a) the conversion of obsolete or derelict buildings, and (b) the conversion of buildings without full disclosure of engineering and maintenance reports, and management and operating information.

C. LONG-RANGE SOLUTIONS

1. It is reasonable for conversion projects to be required to qualify for FHA and VA financing. This imposes upon the converting owner engineering reports and inspections, completion of improvements, compliance with fair practice and disclosure regulations, honesty in sales, contract and lending practices. In addition, it permits finance agencies to accept mortgage applications that otherwise would be declined.
2. It is natural in conversion projects to try to protect the rights of the tenant who has established his rental residence on a "good faith" basis from the ravages of dislocation. Illustrations of this type of action include the New York law, above referred to, and the Oregon law. The constitutional issues raised by such legislation have not been determined. The New York law—if it is upheld—is the most thoroughly protective action taken and could be enacted by a local jurisdiction. The Oregon law provides that eviction may not be exercised against older renters until comparable housing at a competitive rate is located by the renter. When such housing is not readily available, the tenants are not put out on the street without regard for their personal needs and financial repercussions.
3. Some communities have required the converter to assist renters who are being evicted in locating new housing and to assume some or all of the expense of the move. In some cases it is proposed to finance such needs by the levy of a tax on the sale value of the property.
4. Converters may, in some situations, be required to maintain a building or specific units for non-purchasing renters until attrition makes these units available

for sale. In most states, it could be advantageous for the tenants' group to create a cooperative and not a condominium. This can result in lower down payments (membership in the cooperative) and eligibility for Section 8 rental assistance.

D. POSITION OF THE ASSOCIATIONS

The position of the Associations on this complicated and emotional picture is as follows:

1. The Associations endorse efforts by any individual tenant or tenants' organisation which, through lawful means, seeks to alleviate hardships imposed by conversion upon renters.

2. The Associations have identified guidelines, as set forth above, for tenant groups which, if adhered to, will permit members and units/chapters or national members to support tenant efforts and actively participate in local/state legislative or educational movements.

3. The Associations recognize that the root of the problem is lack of housing stock and that older persons are faced by lack of income, mortgage potential, and appropriate options to be disproportionately the victims in the manipulated real estate and housing market. It is, therefore, incumbent upon the Associations to aggressively pursue their legislative goals for increased amounts of senior housing and to develop programs responsive to the current needs of the senior population.

4. The Associations support legislation which requires the seller of a rental property, which is to be converted to condominium, to offer the right to purchase the property to a bona fide resident tenants' association prior to the creation of a condominium regime. This right of first refusal would permit the tenants' association to acquire the property if the offer obtained by the seller independently were matched by the association within 120 days of the notice from the owner of his intention to sell.

5. The right of the tenant of first refusal of the offer to buy into a condominium, if he wishes to do so, ought to be established by law.

6. The right ought to be established by law permitting a tenant in a conversion situation to have a reasonable time to make the decision to buy or leave the premises, individually or as part of an organized tenant group.

7. The tenant ought to have the right not to be forced out of his tenant status while a vacancy level of rental units for the community is less than 3 percent of the housing stock.

8. The tenant ought to be entitled to have some help in relocating, including the cost of relocation, paid for out of a tax on the sale price of the condominium unit and/or paid for by the converter as a part of the total cost of conversion.

9. The tenant should be entitled to receive a report by an independent engineer or architect on the condition of the building being converted and the expected operating costs as required in the Uniform Condominium Act proposed by the Commissioners on Uniform State Laws.

10. Tenants wishing to buy should receive final assistance. This may be by way of a state housing finance agency or through mortgage guarantees. Such tenants should also have available to them housing counseling information made available at the time notice of conversion is issued.

11. Legislation should assist tenants who move by providing relocation counseling services. Developers should be required to submit a reasonable relocation assistance plan and to pay reasonable relocation expenses.

If the above rights are fully established, the tenant is in a position to make a judgment on purchase or rejection, based upon adequate time for reflection, adequate time for the organization of a tenants' association, and a decision which is also governed by the economic status of the tenant himself. The decision will also reflect the condition of the housing market and will avoid placing the tenant in a position of undue hardship without injuring the position of the landlord for ultimate realization on his investment.

Mr. MARTIN. The position of the association on this complicated and emotional picture is this:

One. The associations endorse efforts by any individual tenant or tenants' organization which, through lawful means, seeks to alleviate hardships imposed by conversion upon renters.

Two. The associations have identified guidelines for tenant groups which, if adhered to, will permit members, units or chapters of our association to support tenant efforts and actively participate in local, State or educational movements.

Three. The associations recognize the root of the problem is the lack of housing stock and that older persons are forced by lack of income, mortgage potential, and appropriate options to be disproportionately the victims in the manipulated real estate and housing market. Therefore, it is incumbent upon the associations to aggressively pursue their legislative goals for increased amounts of senior housing and to develop programs responsive to the current needs of the senior population.

I sat in on the conference which Cushing Dolbeare described here several weeks ago, and it was obvious that we had to do a lot more work than we have done so far if we are going to get any change in this housing situation.

The associations support legislation which requires the seller of a rental property, which is to be converted to a condominium, to offer the right to purchase the property to a tenant or to a bona fide tenants' association prior to the creation of the condominium regime. The right of first refusal ought to be established by law.

The right ought to be established by law permitting a tenant in a conversion situation to have a reasonable time to make the decision to buy or leave the premises, individually or as part of an organized tenant group.

The tenant ought to have the right not to be forced out of his tenant status while a vacancy level for the community is less than 3 percent of the housing stock. This is important because if the vacancy rate falls below a certain level, we think it is about 3 percent, there is simply no place for these people to go and to force them out facing that situation is little short of criminal.

One qualification might be put on related to a low vacancy level. The tenants ought not to be forced out when the rental level is less than 3 percent in the community unless a substantial portion of the tenants consent to the conversion or agree to buy, or unless the seller agrees to retain a fixed proportion of low- or moderate-income housing in the condominium.

The tenant ought to be entitled to have help in relocating, including the cost of relocation, paid out of a tax on the sale price of the condominium or paid for by the converter as a part of the total conversion.

The tenant should be entitled to receive a report from an independent engineer or architect on the condition of the building being converted and the expected operating costs as required in the Uniform Condominium Act proposed by the Commissioners on Uniform State Laws.

Tenants wishing to buy should receive financial assistance. This may be by way of State housing finance agency or through mortgage guarantees. Such tenants should also have available to them housing counseling information made at the time of notice of conversion.

Legislation should assist tenants who move by providing relocation counseling services. Developers should be required to submit a reasonable relocation assistance plan and to pay reasonable relocation expenses.

If the above rights are fully established, the tenant is in a position to make a judgment on purchase or rejection, based upon adequate time for reflection, adequate time for the organization of a tenants' association, and a decision which is also governed by the economic status of the tenant himself. The decision will also reflect the condition of the housing market and will avoid placing the tenant in a position of undue hardship without injuring the position of the landlord for ultimate realization on his investment.

That completes my statement.

Mr. Roybal. I think you have all stated there is a definite problem, and you have acknowledged that the problem is there.

The second thing that has come up, as I see it, is while there is a problem, that problem would not be existent if there was, in fact, more housing for people in low-income groups. Am I correct in making these assumptions?

Mr. Martin. No question about that, Mr. Chairman.

Ms. Dolbeare. Could I qualify that just a little bit?

Mr. Roybal. Yes.

Ms. Dolbeare. Even if housing is available, I think there is a problem when people are forced to move away from housing which they like to housing which they would prefer not to have, so I would say that obviously more housing would help a great deal to alleviate the problem, but there still might be some of the trauma of leaving a home and leaving associates.

Mr. Cecchi. I agree with that.

Mr. Roybal. It seems to me one of the problems we have, at least in our large metropolitan areas, is that there is not sufficient land available at a reasonable price for new low-income housing. Is that a correct assumption on the part of some of you as experts dealing with this problem? Is it difficult, for example, to build low-income housing?

Ms. Dolbeare. It is difficult to get low-income housing. I tend to think that land is less of a problem in many communities than racism and prejudice. If there were a will to provide low-income housing it could be provided, not necessarily new houses but some of the buildings being converted to condominiums for higher income people could also be converted into good housing for low-income people.

Mr. Roybal. For example, the Capitol Hill area, surrounding these Federal buildings, was, a few years ago, a Black community. Today, there are very few Blacks that can afford to live here. It seems to me one of the main reasons for not building low income housing is that the cost of land is so high. People have to move far away from the neighborhood where they were reared, and perhaps in which they were born.

My question is, does the unavailability of affordable land in an area such as Capitol Hill, for example, and other Capitol Hills throughout the country create a problem in building low-income housing? What about Miami?

Mr. Studnicky. I would stay with what you are saying. I think there is an unavailability of land. In Miami, land which has been recommissioned for redevelopment was called the South Beach redevelopment plan, which flourished. Some 20 years ago this is where Miami Beach—where all of the luxurious and high-rise hotels were. Many hotels did not make it, and they lowered their standard and low-rent people moved in. As a result of more and more low-rent people moving into a hotel, then it spreads to the hotel next door and then the whole socioeconomic level of the neighborhood dropped considerably and it continued to spread. Right now it is an absolute derelict area, and the city of Miami and the State of Florida is to go in there and provide housing for the low-income people and the elderly.

Mr. ROYBAL. In areas that are subject to redevelopment one finds very little housing available that senior citizens can afford. I think that is a case in most any city, not only Washington, but anywhere else. That creates a problem with the senior citizens on fixed incomes. They have to relocate somewhere else. Did you find this to be a problem Mr. Cecchi? Did many of the people in the building you developed have to relocate to another area?

Mr. CECCHI. No. I think most of the people—I would say that all of the people who wanted to buy in the project, due to the special program we set up for them to either buy or lease at a fixed rent for the term of the lease, all who wanted to stay did stay. I think in any project of this size there is a mix of permanent and transient population. There was a number of transient residents at Parkfairfax. There was a turnover rate in the project when we bought it of approximately 30 percent. That means over 500 people every year were moving out and 500 were moving in.

The same is true at Belle View on 1,000 units we have about a 350 turnover rate every year. That particular population is a transient population. They move for other reasons and not for the reasons of the conversion. They would have moved in any case.

Then there is a stable population of those people who have lived there for several years and will continue to live there, and we are addressing our effort to give an opportunity to those people to buy. Really, the possibility of giving that opportunity is created by the other transient population that generates empty units which can be sold at much higher prices to outsiders who move into the area. And some of the extra money made in sales to the public is turned back in the form of subsidies to the existing tenants.

Mr. ROYBAL. What you are saying then is those people who have been in that one building which is being rehabilitated get a better break in the purchase of that apartment than anyone else coming in as a new owner?

Mr. CECCHI. Yes; there is a big difference. Belle View is a project we are opening for sale tomorrow. A two-bedroom apartment, fully air-conditioned, would sell to the general public for an average price of approximately $46,000. The existing tenant who was in the project when we bought it, which we call "qualified tenant," will get a discount of $8,500. So his price would be in the midthirties. Plus, if he is over 65 years of age, or if he is severely handicapped, he will get an additional $3,000 discount. If he chooses to rent, he gets a $60 rebate per month on his rent which would be the same rent fixed for 5 years.

Mr. ROYBAL. Suppose this one individual was buying this apartment at $35,000?

Mr. Cecchi. $36,000, $37,000. If he is elderly, it would be $34,000.

Mr. Roybal. That individual then is a longtime resident. How is his mortgage financed?

Mr. Cecchi. It depends on how much cash he puts up. Our lenders will provide financing up to 95 percent. At Parkfairfax 80 percent of the loans were 95-percent loans, which means people put down 5 percent.

Mr. Roybal. What is the interest rate?

Mr. Cecchi. It is market rate and, of course, we are providing some special programs there.

The market rate is certainly high today. It would be around 13 percent. I think by the time we get to settlement it will be around 12 percent. We examine each case, and if we see a particular tenant cannot qualify for the monthly payment, then we give him a lesser discount and channel some of the discount money to buy down the rate, and then his monthly payment goes down.

The total price of the apartment is not too relevant because if he puts down 5 percent, then the downpayment is nominal and his monthly payment goes down.

We are qualifying our project for VA. We did this at Parkfairfax. We are qualifying our Belle View project for FHA financing.

In dealing with the special cases, we have been able to accommodate everybody's needs. If a person does not want to buy, he can continue to rent.

Here at Belle View we have the Fairfax County program which gives us good relief. In an extreme case we can identify that unit for Fairfax County to buy, and that becomes a subsidized unit.

Mr. Roybal. If a person continues to rent, is his rent increased after the building is rehabilitated?

Mr. Cecchi. No; it is at the street rent at the time he buys. The people renting now will have the rent fixed for 5 years except for increases in real estate taxes and in the condominium fee.

Mr. Roybal. If you are doing the rehabilitation while the tenant is in the apartment——

Mr. Cecchi. That is essential, because a temporary relocation is costly and very disruptive, and this method provides an uninterrupted flow of income that allows us to lower the price of the unit.

If there were additional costs, they would be passed onto the purchasers.

Mr. Roybal. That is a very interesting project. Did you want to add something Ms. Dolbeare?

Ms. Dolbeare. I wanted to get back to the example of Miami Beach. I think the real public policy that needs to be faced head on is who should benefit. The block grant funds are supposed to be spent for the benefit of low- and moderate-income families. It seems to me any kind of development program that is directly or indirectly supported by community development block grant funds or other Federal funds that results in the displacement of low- and moderate-income people in order to revitalize or build up the tax base, or whatever else, really flies in the face of public policy.

We need to monitor what is being done with the community development block grant funds. We need to make a straightforward statement that where Federal funds are used for these purposes the benefits should be for the people who are living in the neighborhoods now—not to do something which, directly or indirectly, and generally it is indirectly, pushes them out and makes it a nice place for other people to move in.

Mr. ROYBAL. Mr. Studnicky, you told the committee that you do not evict tenants, and then you went on to say that you have established a procedure whereby the tenant is offered a certain amount to move, and if he does not take advantage of that over a period of 2 or 3 months the person loses the money, that may not be eviction, but isn't it prodding the individual to move?

Mr. STUDNICKY. The inevitableness would be we would finally get to the point at some time. The plan is to allow the people to stay as long as they can stay or want to stay while we are going through the work. We are dealing with 357 units. If the people wanted to stay, 50 people wanted to stay, those would be the last 50 units that would be rehabilitated.

Mr. ROYBAL. Mr. Martin, you have attended a lot of these conferences and conventions on housing.

In your opinion, is a great deal accomplished at these conferences, enough, for example, to be able to have concrete recommendations sent to the Congress in the housing area?

Mr. MARTIN. I am sure you will get some very concrete recommendations from Cushing Dolbeare's conference because she thinks in pretty practical terms. I don't think it is a question of whether good recommendations can be made. It is a question of whether Congress pays any attention to them when they get there. Congress is busy with many things, and just a letter of recommendation does not always get full attention.

I sit on the Federal Council on Aging also, and sometimes I have the same feeling about the recommendations which we make. They are good recommendations all right, but they don't always get action.

Mr. ROYBAL. You are right and correct about criticizing Congress for not really addressing themselves to the problem that those recommendations are designed to correct. This happens over and over again. That is the reason why the Committee on Aging was established. I think you know this is not a legislative committee. We are a fact-finding committee, and our job is to make recommendations to the appropriate committees that certain things be done.

I think we also know this committee has been very successful in getting appropriations through. It is my opinion that prior to this committee's existence, these progfams would not have gone through the appropriations process.

While this is not a legislative committee, we do have a little input, and I think a little clout around here to get some things done. But here we sit as a subcommittee while the session of Congress is going on.

My ear is here and the other is listening for that bell. That is a distraction, and many times members of Congress are distracted by things that are going on and happening in their own community, and sometimes we think we would like to look at the overall picture.

This is the reason why we have today witnesses from different parts of the country with different ideas and recommendations. What I would like to request of each of you, and you don't have to do it now—that you send me a one-page summary of what you think this subcommittee should be recommending with regard to, one, housing in general, two, condominium conversions. Put it on one page. Tell us what this subcommittee should be doing in this area. We will analyze those carefully and then get back to you with questions on the two, three, or four recommendations you will be making to the committee, and see if we can establish a dialog.

I like what I have heard, and I think we should explore it further to see how we can do something together. I don't think the Congress of the United States can do it alone. I think that is impossible. If you don't tell us more about the problems of housing, we are going to be busy with something else. We appreciate your attention here today, the time you have taken and seriously hope you will summarize, if possible, recommendations that you can make to this committee. Knowing the background of each and every one of you, I am sure I am going to get four real good letters of response to this request.

May I thank you for your presence here. The committee now stands adjourned.

[The committee adjourned at 12:38 p.m., subject to the call of the Chair.]

APPENDIX 1

PREPARED STATEMENT AND ADDITIONAL MATERIAL SUBMITTED BY DR. LEON A. PASTALAN

TRAUMATIC EFFECTS OF DISPLACEMENT AND RELOCATION OF THE ELDERLY IN TERMS OF CONDOMINIUM CONVERSIONS

My name is Leon A. Pastalan and I am the Director of the Environment and Aging Program at the Institute of Gerontology, and a Professor of Architecture in the College of Architecture and Urban Planning at The University of Michigan. I was co-project director of a National Institute for Mental Health investigation entitled "Forced Relocation: A Study of Involuntary Change of Patients From One Socio-Physical Environment to Another," a longitudinal investigation of the effects on elderly patients in a county medical care facility of involuntary change from one socio-physical environment to another, and to determine the extent to which these effects are influenced by (a) the characteristics of the patient, (b) the characteristics of the changed environment, and (c) intervention designed to prepare the patient for relocation.

I am now the Project Director of the Pennsylvania Preparation for Relocation Project, which also includes a longitudinal study of transfer trauma and discharge planning affects, which is in its seventh year of assisting the Health and Welfare Department of Pennsylvania in the development and utilization of a plan for preparation of elderly for relocation from one nursing home to another.

Beginning in 1938 Camargo and Preston (1945) undertook a three-year survey of first admissions of patients over 65 years of age to the Maryland state mental hospitals. A total of 683 cases were examined. In the first year following admission 47 percent died, with approximately 16 percent dying during the first month. After the second year another 11 percent died.

Whittier and Williams (1956) conducted a similar investigation and found that there was a twenty percent mortality rate within thirty days from the date of admission. After one year, half of the study population had died.

Both were designed to be descriptive studies, and not intended to prove any causal relationships. Yet, the numbers were too striking to ignore and suggested that further study was needed regarding the consequences of moving an older adult from one environment to another. Since that time much discussion has evolved into the notion of "transplantation shock" or "relocation effect" experienced by elderly individuals upon changing living environments. Thus, two major questions arise:

1. Do all older people under all conditions experience negative consequences following a move, or are certain types of individuals more susceptible to a move under certain conditions?

2. What, if anything, can be done to facilitate adjustment to a new setting and reduce the potential "transplantation shock"?

A careful review of the relocation literature reveals apparently contradictory results. For instance, Aldrich and Mendkoff (1963); Lieberman (1961); Killian (1970); Markus, Blenkner, Bloom, and Downs (1972); and Pablo (1977) have found that relocation has negative consequences such as increased mortality, depression, stress, and decreased life satisfaction. In contrast, Carp (1967); Lawton and Yaffe (1970); Lieberman, Tobin, and Slover (1971), and Carp (1977) have failed to find negative consequences in terms of survival, longevity, and general well-being of the elderly. In fact, in some instances significant positive results have been noted following a move to a new environment.

A major reason for the apparently contradictory findings is that underlying all the conclusions are qualifying factors such as the characteristics of the people being moved, and of the receiving facility; the reasons for the move, and its meaning to the mover; and the helping techniques used to facilitate the moves. Thus, the results can be said to revolve around five major factors:—The degree of choice in making the move,—the degree of environmental change,—the degree of health, the degree of preparation, and—the methodology utilized in the study.

Schultz and Brenner (1977) postulate that negative responses to a stressful event will be lessened to the extent that the individual feels it is predictable and/or controllable. Consequently, given this assumption, the greater the choice an individual has, the less negative will be the effects of relocation. The degree of choice, in terms of whether the move is voluntary or involuntary, thus becomes an important qualifying factor which must be examined separately. Furthermore, an individual's response to a new environment will be a function of that individual's past experiences and environmental cues. It therefore becomes necessary to note the nature of the pre-relocation environment. These degrees of environmental change can be summarized into three general categories:

A move from one residence to another (home to home).
A move from a residence to an institution (home to institution).
A move from one institution to another (institution to institution).

Since the focus of these hearings is on relocation of elderly persons from one residential setting to another, I will emphasize the literature which deals primarily with that phenomenon.

VOLUNTARY MOVE

Home to home.—Numerous studies have examined the effects of voluntarily moving aged individuals from one home to another. Carp (1967) was one of the first investigators to address this situation, and later did a follow-up examination of these same individuals eight years later (Carp, 1977), providing one of the few long-range longitudinal studies regarding the relocation experience. The research was conducted at Victoria Plaza, an apartment for the elderly, and consisted of comparing applicants who were accepted into the home with a matched set of applicants who did not become residents. Most of the relocatees were coming to an environment which was substantially better than the one in which they were leaving. She found that residents were more satisfied with their housing than nonresidents, that residents had less need for special services, had more memberships in clubs, and had more friends. No differences were found between the relocation experience of men and women. Consistently, attitudinal scores of residents improved, while those of the nonresidents showed slight decrements or no change. In addition, pre- and post-measures taken 12 to 15 months apart revealed that residents spent less time in bed on account of illness and less time in health care activities following relocation. Thus, the author concludes that more time should be spent on examining the role of the setting in determining the experience of the people living within it.

Citing the fact that most studies tend to report on the first year of tenancy following relocation, the Victoria Plaza residents were again examined (Carp, 1977) eight years later. At that point in time 26 percent of the 204 original inmovers to Victoria Plaza, and 37 percent of the 148 comparison group were dead or dying. These findings suggest that there can be a health benefit of a good living environment over the long range as well as the short. Carp suggests that the new living environment facilitated satisfaction and reduced stress, which brought about, among other direct consequences, improved health status and a declining death rate.

Lawton and Yaffe (1970) also examined a move from one housing environment to new housing which was substantially better. Three pools of older people were matched for sex, age, and health at the beginning of the study:

1. A congregate housing relocated group;
2. A congregate housing nonrelocated group; and
3. A community nonrelocated group.

The post-move mortality rate was found to be low in all three groups (a 12 month rate of 7.4 percent), with no significant differences between the voluntarily relocated group and the two matched control groups. However, Schulz (1976) warns that care should be taken in extrapolating these findings to other relocation questions since in the absence of random assignment it must be questioned what consequences might arise from comparing a group which had a desire to move with control groups which did not.

Like Lawton and Yaffe, Wittels and Botwinick (1974) found no differences in mortality rates between voluntary relocatees and control groups. The subjects had to be healthy to be included in the study, and were moved to a setting which stressed activities and group participation. Within one year of the move it was found that on the average the deceased tended to be older by nearly three years, were in less good initial health, and included a larger percentage of men. No significant differences were observed between those surviving after one year in terms of occupation, educational levels, nor marital status. These findings are compatible with those of Storandt and Wittels (1975) in which decisional control was exercised by the relocatees, and a maximum of predictability was maintained. No decrements in voluntarily relocated persons from pre-test to post-test were recorded.

In sum, the results reveal that the vast majority of subjects who moved voluntarily from one home to another maintained or improved their quality of life based on various attitudinal indicators. In addition, although most of the existing studies dealt only with healthy subjects there are indications that those who are older and in worse physical health initially will not fare as well after the move. Conflicting evidence was reported regarding post-relocation adaptation differences between men and women.

INVOLUNTARY MOVE

Home to home.—The results in this category are often contradictory. Hasteler, Gray and Carruth (1968) compared a group of people forced to move because of highway construction with a matched sample of nonrelocated elderly subjects. It was found that the nonrelocated group had significantly more persons with a good or average rating regarding health, friends, work, economic security, religion, feelings of usefulness, and happiness. Thus, the nonrelocated subjects seemed to score higher on measures of personal adjustment and amount of activity.

Brand and Smith (1974) initiated a similar study and found that the nonrelocated group also scored significantly higher than the relocated group on a life satisfaction index. In addition, it was discovered that those who were the most unhealthy were more susceptible to the stress of relocation than were those who were healthy. Relocation had a more adverse effect on females than for males, and blacks seemed to adjust better than whites. No difference was observed between the relocated and nonrelocated groups with regard to health status.

In contrast to the findings of Brand and Smith-Kral, Grad, and Berenson (1968) found that normal aged men appeared to suffer more from relocation than normal aged women. Within 23 months, the mortality rates were 42 percent for men and 20 percent for women. Yet, they also discovered that those who were unhealthy and those who were psychotic did not adjust as well to the move as did those who were healthy.

Shahinian, Goldfarb, and Turner (1968) compared death rates for involuntary relocatees to a control group which was not relocated. Support was revealed for the previous findings that those having moderate physical impairment, severe brain syndrome, and severe motor impairment are likely to experience negative consequences and higher mortality rates.

In sum, the literature regarding forced relocation from one residence to another was not as favorable as it was for the relocatees who voluntarily moved from one home to another. Most studies found some negative consequences associated with the move. In particular, those people with physical and mental health disabilities consistently showed up as being more vulnerable to a move.

SUMMARY—PREPARATION PROGRAM HIGHLIGHTS

All of the studies reviewed here found that although there is a danger in relocating some types of elderly people in some situations, a carefully designed preparation program can reduce the danger to some extent and facilitate post-relocation adjustment.

Involve the relocatee in the decision-making as much as possible.

Utilize as many pre-move site visits as the relocated person wants.

Sensitize the family to the move and involve them in the planning process as much as possible.

Characteristics of advanced age, poor prognosis, and confused mental status are strong predictors of mortality following relocation, even when a preparation program is used.

SUMMARY OF FINDINGS AND CONCLUSIONS

The greater the choice and control the individual had in being relocated, the less negative the effects of relocation there tended to be.

The more predictable the new environment was, the less negative the results were in general.

Those people of advanced age, poor prognosis, and confused mental status did not fare as well as those who were healthier.

There was some indication that those people who took an angry or philosophical attitude toward the move showed better adjustment than those who tried to deny the move or withdraw from activities.

Most of the studies did not find a relationship between length of hospitalization, educational level, occupation, or income and post-relocation adjustment.

Many of the studies found that the first three months immediately following the move are the most dangerous in terms of increased mortality rates.

Distance moved tended to be a reasonably good predictor of vulnerability.

Those who moved involuntarily from one residence to another showed greater decreases in life satisfaction than those who made the same type of move voluntarily.

RECOMMENDATIONS

In the main, it is clear that an involuntary move is not an acceptable option for most elderly adults as it can be a burdensome and dangerous experience and must be avoided whenever humanly possible. The conversion process dislocates our elders from their homes. It forces them to leave what has become their most important possession, for it often forces them to leave family and friends and to move away from the community and the public and private services on which they have come to rely.

It is recommended therefore:

1. That those persons over 65 who wish to remain in their apartments be provided with a lifetime lease at reasonable rents. Those units will not be offered for sale until the older adult moves out voluntarily or dies.
2. For those who choose to move voluntarily or if the first recommendation is found to be untenable for legal or other reasons, the owner must provide tenants with a relocation service which helps tenants find comparable apartments in size, price, amenities and location. The apartment must be available for at least one year.
3. The owner must also assist the tenant in orienting and familiarizing him/her with community resources and locating essential and life-enriching services.
4. Pay moving costs and at least a $500 relocation fee.
5. If the rent is higher for the new apartment the owner must pay the difference for at least one year.

RELOCATION: A STATE OF THE ART

SECTION I. INTRODUCTION

Beginning in 1938 Camargo and Preston (1945) undertook a three-year survey of first admissions of patients over 65 years of age to the Maryland state mental hospitals. A total of 683 cases were examined. In the first year following admission 47 percent died, with approximately 16 percent dying during the first month. After the second year another 11 percent died.

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1. Do all older people under all conditions experience negative consequences following a move, or are certain types of individuals more susceptible to a move under certain conditions?
2. What, if anything, can be done to facilitate adjustment to a new setting and reduce the potential "transplantation shock?"

A careful review of the relocation literature reveals apparently contradictory results. For instance, Aldrich and Mendkoff (1963); Lieberman (1961); Killian (1970); Markus, Blenkner, Bloom, and Downs (1972); and Pablo (1977) have found that relocation has negative consequences such as increased mortality, depression, stress, and decreased life satisfaction. In contrast, Carp (1967); Lawton and Yaffe (1970): Lieberman, Tobin, and Slover (1971), and Carp (1977) have failed to find negative consequences in terms of survival, longevity, and general well-being of the elderly. In fact, in some instances significant positive results have been noted following a move to a new environment.

A major reason for the apparently contradictory findings is that underlying all the conclusions are qualifying factors such as the characteristics of the people being moved, and of the receiving facility; the reasons for the move, and its meaning to the mover; and the helping techniques used to facilitate the moves. Thus, the results can be said to revolve around five major factors: The degree of choice in making the move, the degree of environmental change, the degree of health, the degree of preparation, and the methodology utilized in the study.

It is the purpose of this paper, therefor, to compile a relocation "state of the arts" revolving around these five major qualifying factors for a variety of settings, diagnostic categories, demographic characteristics, and social factors. In addition specific studies that identify individuals least and most vulnerable to relocation will be cited. Finally, longitudinal studies that provide methodology, techniques, and data on the preparation of patients and families for relocation, as well as the effects of these processes on facilitating adjustment to new settings, will be highlighted.

SECTION II. RELOCATION RESEARCH HIGHLIGHTS

Introduction

Schulz and Brenner (1977) postulate that negative response to a stressful event will be lessened to the extent that the individual feels it is predictable and/or controllable. Consequently, given this assumption, the greater the choice an individual has, the less negative will be the effects of relocation. The degree of choice, in terms of whether the move is voluntary or involuntary, thus becomes an important qualifying factor which must be examined separately. Furthermore, an individual's response to a new environment will be a function of that individual's past experiences and environmental cues. It therefore becomes necessary to note the nature of the pre-relocation environment. These degrees of environmental change can be summarized into three general categories:

A move from one home to another (home to home).
A move from a home to an institution (home to institution).
A move from one institution to another (institution to institution).

In sum, the nature of the many qualifying factors should be considered within the overall framework of whether the move was voluntary or involuntary; and whether the move was from home to home, home to institution, or institution to institution.

Voluntary Move

Home to home.—Numerous studies have examined the effects of voluntarily moving aged individuals from one home to another. Carp (1967) was one of the first investigators to address this situation, and later did a follow-up examination of these same individuals eight years later (Carp, 1977), providing one of the few long-range longitudinal studies regarding the relocation experience. The research was conducted at Victoria Plaza, an apartment for the elderly, and consisted of comparing applicants who were accepted into the home with a matched set of applicants who did not become residents. Most of the relocatees were coming to an environment which was substantially better than the one in which they were leaving. She found that residents were more satisfied with their housing than nonresidents, that residents had less need for special services, had more memberships in clubs, and had more friends. No differences were found between the relocation experience of men and women. Consistently, attitudinal scores of residents improved, while those of the nonresidents showed slight decrements or no change. In addition, pre- and post-measures taken 12 to 15 months apart revealed that residents spent less time in bed on account of illness and less time in health care activities following relocation. Thus, the author concludes that more time should be spent on examining the role of the setting in determining the experience of the people living within it.

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Lawton and Cohen (1974) utilized a longitudinal comparison group designed by examining the change over time among relocated subjects to that among the comparison subjects by means of multiple regression analysis which controlled for the original state of well-being, demographic characteristics, and initial state of health. Five housing sites limited to people 62 years of age and over were studied. All subjects were interviewed prior to occupancy, and 83 percent were reinterviewed 12 months after relocation. Results showed that relocatees were significantly poorer in functional health than were community comparison subjects. Yet, relocatees were significantly higher in morale, more satisfied with their housing, more involved in external activities, and more satisfied with the status quo than were the community residents. Although the authors are not sure why morale was high while health was down, they suggest that a positive advantage can result from rehousing the elderly based on the judgment made by the older person evaluating his current condition.

In sum, the results reveal that the vast majority of subjects who moved voluntarily from one home to another maintained or improved their quality of life based on various attitudinal indicators. In addition, although most of the existing studies dealt only with healthy subjects there are indications that those who are older and in worse physical health initially will not fare as well after the move. Conflicting evidence was reported regarding post-relocation adaptation differences between men and women.

Home to institution.—In most instances when an older person moves from one home environment to another it is usually because it means an improvement in living conditions. However, when an older individual moves from a home environment to an institution voluntarily it is not always the desire for a better living environment which precipitated the move. Often the older adult is faced with a life crisis that makes a move to an institution necessary. Consequently, the fact that a person entering an institution for the first time may also be experiencing another life crisis at the same time makes this type of move slightly different from the home to home move.

In 1963, Ferrari compared two groups moving from a home environment to an institution—one entering voluntarily, and the other without an alternative. Examination of the mortality rates 10 weeks after relocation revealed that 94 percent (16 of 17) of those relocated involuntarily died, while 2.8 percent (1 of 38) in the voluntary group died within the same period. Therefore, even though health was a confounding variable in this situation, the study provides some evidence that a voluntary move from a home to an institution does not necessarily mean a high mortality rate shortly after relocation.

Schuls and Aderman (1973) and Sherwood, Glassman, Sherwood, and Morris (1974) examined in-depth the pre-relocation environment and attitudes of voluntary relocatees. Schuls and Aderman conclude that those people who are used to exercising control over their home environment suffer more from feelings of helplessness upon entering an institution than do people who move to one institution to another. As a result, those who move to an institution from a home have more difficulty adapting to a new environment than do those who move from another institution.

Sherwood, Glassman, Sherwood, and Morris (1974) discriminately divided a group of voluntary relocatees into two sub-groups: those who had previously exercised a good deal of control were classified as less suitable for institutionalization, and vice versa. Pre-test attitudinal measures revealed that the more suitable group was more dissatisfied with life than the group classified as less suitable for institutionalisation. Yet, the post-test results showed that the life dissatisfaction of the suitable group went down. Consequently, this study provides further evidence that the post relocation experience is a function of pre-relocation environments and attitudes.

Turner, Tobin, and Lieberman (1972) examined voluntary relocatees to institutions, but focused more attention on the nature of the post-relceation environment. In an environment which stresses high levels of interaction, activity and aggressiveness, the authors conclude that a vigorous, if not combative, style is facilitory for adaptation. In examining a group of healthy, older adults they found that those who interacted with the environment adapted better than those who tended to disengage.

In a similar type of study, Havens (1968) examined a group of voluntary relocatees who possessed some handicaps, but who were nevertheless capable of self-maintenance. Subjects were involuntary in the sense that they had no alternative but to leave their former residences, but they did choose to live in that particular environment. Examination of pre- and post-relocation attitudinal tests revealed that a low level of adjustment tended to be associated with discontinuity between environmental conditions, and that a high level of adjustment is associated with a continuity of environments. Age, sex, and marital status did not prove to be good predictors of post-relocation adjustment.

Blenkner (1967) utilises a random assignment procedure to assign those living in the community to pre-relocation service programs providing minimal, moderate, or maximal care and information. Those who received a more intensive level of professional services were more likely to be placed in an institution. In addition, for those who were relocated, there was evidence that if the older person's intellective capacity, memory, and orientation to time, place, and person are seriously impaired, his changes of survival following relocation are considerably lower than that of a person who shows no or only mininal signs of impairment, regardless of how emotionally or socially disturbed or maladjusted such a person may be.

In sum, the home to institution studies tended to focus on examining the effects of the previous life style and environments on relocation adjustment. Most indicated that the response to institution is a function of the nature of the pre-relocation environment. In addition, the sudden change from an environment where control was prevalent to an institution where there is less control available was shown to lead to stress and greater life dissatisfaction in the new environment. Finally, there was some evidence that those who sought interaction following the move adjusted better than did those who withdrew from activities.

Institution to institution.—Most of the literature regarding relocation of the elderly has been concerned with the change from one institution to another. However, the vast majority of these studies have examined older people who were forced to relocate. Jasnau (1967) and Zweig and Csank (1975) represent the studies which have utilized a voluntary population sample. Both investigations involved the use of a carefully planned pre-relocation preparation program. Jasnau compared a group who were mass moved to another group in which each person was given extensive individual preparation. All patients were prepared for the move and no patient was moved against his will. Those given individual attention were exposed to extensive psychological and emotional preparation by trained social casework services. Those who were undecided were given a second chance to change their mind later, and were also given further personal attention. The mass moved group had a mortality rate 35% greater than the death rate for the same institution one year before relocation. The group give individual attention had lower than expected mortality rates. Although Jasnau did not examine other possible reasons for the change in the death rate, the results indicate that adequate preparation can reduce the trauma associated with change for older adults transferred from one institution to another.

Zweig and Csank (1975) investigated the voluntary transfer of about 350 male war veterans, usually over 65 and suffering from some chronic incapacity requiring more or less constant attention. The move was not sudden. A preparation program was implemented in order to "relieve pressure, allay anxiety, and build up realistic expectations of what the future held in store." From the year before relocation to one year after, there was a 6.82 percent decrease in mortality. Like Jasnau, Zweig and Csank point to the relocation preparation program as the probable reason for the success.

In sum, very few studies exist regarding the voluntary move from one institution to another. No results compared individuals relocated specifically to diagnostic categories, age, sex, race, education or income. Some indication was obtained that the existence of a preparation program can reduce the trauma of relocation.

Summary—Voluntary Move

Home to home.—Improvements in living situations can result in positive health benefits.

Although most studies dealt with healthy subjects, there is some indication that those who are older and are in worse physical health will not fare as well after the move as younger, healthier subjects.

Conflicting results exist regarding any post-relocation adaptation between men and women.

Home to institution.—Pre-relocation control is an important factor in post-relocation adjustment.

Choice is an important factor in determining post-relocation mortality.

Attitude toward move important—it appears to be better to adopt a more active approach.

Institution to institution.—No relationship between relocation and mortality rates reported.

Morbidity and attitudinal changes were not examined for this category.

The existence of a relocation preparation program helps to ease post-relocation adjustment.

Involuntary Move

Home to home.—The results in this category are often contradictory in some instances, while being supportive in other cases. Hasteler, Gray and Carruth (1968) compared a group of people forced to move because of highway construction with a matched sample of nonrelocated elderly subjects. It was found that the nonrelocated group had significantly more persons with a good or average rating regarding health, friends, work, economic security, religion, feelings of usefulness, and happiness. Thus, the nonrelocated subjects seemed to score higher on measures of personal adjustment and amount of activity.

Brand and Smith (1974) initiated a similar study and found that the nonrelocated group also scored significantly higher than the relocated group on a life satisfaction index. In addition, it was discovered that those who were the most unhealthy were more susceptible to the stress of relocation than were those who were healthy. Relocation had a more adverse effect on females than for males, and blacks seemed to adjust better than whites. No difference was observed between the relocated and nonrelocated groups with regard to health status.

In contrast to the findings of Brand and Smith—Kral, Grad, and Berenson (1968) found that normal aged men appeared to suffer more from relocation than normal aged women. Within 23 months, the mortality rates were 42 percent for men and 20 percent for women. Yet, they also discovered that those who were unhealthy and those who were psychotic did not adjust as well to the move as did those who were healthy.

Shahinian, Goldfarb, and Turner (1966) compared death rates for involuntary relocatees to a control group which was not relocated. Support was revealed for the previous findings that those having moderate physical impairment, severe brain syndrome, and severe motor impairment are likely to experience negative consequences and higher mortality rates.

In sum, the literature regarding forced relocation from one home to another was not as favorable as it was for the relocatees who voluntarily moved from one home to another. Most studies found some negative consequences associated with the move. In particular, those people with physical and mental health disabilities consistently showed up as being more vulnerable to a move. Those who were forced to relocate did not tend to score as well on attitude tests following relocation as did their nonrelocated control groups. Conflicting evidence was reported regarding the differences of forced relocation on males and females.

Home to institution.—The majority of the studies involving home to institution moves have been voluntary in nature, with a couple of exceptions. As mentioned earlier, Ferrari (1963) compared a voluntary group to an involuntary group and found that within the first 10 weeks of residence, the involuntary group had a mortality rate of 94 percent.

Schulz and Aderman (1973) found that those patients who came to the institution from a similar environment survived on the average nearly one month longer than those patients who came from dissimilar home environments.

In sum, very little research has been done in this category, but what has been done provides further evidence that those who are forced to move and those who come from dissimilar backgrounds are more often among those who die following relocation than are those people who move voluntarily and who move to a receiving environment which is similar to the one they just left.

Institution to institution.—Results of studies involving moves from one institution to another often provide conflicting conclusions. For instance, Aleksandrowicz (1961) examined mortality rates following relocation and found a 20-percent death rate during the three months following the move, compared to 7.5 percent during the three months preceding relocation. Likewise, Killian (1970) found mortality rates to be from 4.98 to 8.99 times greater for relocated patients than for nontransferred patients. However, Miller and Lieberman (1965) reported a death rate of 4 out of 45 in 18 weeks, a figure which was not statistically significant. Further support of this finding comes from Markson and Cumming (1974) who recorded a mortality rate of less than one in ten during an eleven month period following relocation.

One of the most frequently cited relocation studies is the one by Aldrich and Mendkoff (1963). Calculations of the annual survival rate for patients based on records for the institution during the decade prior to relocation were compared to the actual death rate. It was discovered that the actual death rate was substantially and significantly higher than the anticipated rate. Furthermore, an analysis of the breakdown of deaths during the first three months following relocation revealed that for patients over 70 years of age the actual rate was three and a half times greater than the expected death rate, and for all patients it was three times higher than expected. Death rates for the psychotic or near-psychotic were also found to be statistically significant. In terms of attitude, results revealed that those people who took a philosophical or angry response to the news of relocation had a lower than average mortality rate, while those who denied the reality of the move tended to be more prevalent in the group that died.

Bourestom and Pastalan (1975) divided the relocatees into two groups: one had to adjust to a new staff, a new program, a new physical environment, and a new patient population (radical change group), while the other group only had to adjust to a physical environment change. A higher mortality rate was found for both relocated groups, with 43 percent of the radical change group dying in the six months preceding and one year following relocation. The authors concluded that the more severe the change in the type of environment, the greater the negative effects of relocation.

Lieberman, Tobin, and Slover (1971) also found the nature of the environment to be the most important factor in relocation concluding that cold, dehumanizing environments tend to cause declines following a move, while autonomy-fostering environments are more likely to result in the patient staying the same or improving. In contrast, Marlowe (1974) concluded that it is not the nature of the physical environment which is of importance, but rather, the amount of control or perceived control which is of most importance.

In sum, although conflicting results have been reported regarding post-relocation rises in mortality rates, most of the studies indicate that the greatest danger appears to be among the helpless and psychotic. Furthermore, those patients who took an angry or philosophical attitude toward the move showed better adjustment than those who tried to deny the move. Some conflicting evidence exists whether it is the nature of the environment which is of major importance, or whether control is a major factor. Studies involving other types of environments would indicate that both the nature of the environment and the amount of control exercised by the relocated individual are of major importance in terms of adjustment.

Summary—Involuntary Move

Home to home.—Those who are forced to move do not tend to do as well following relocation as do those who move voluntarily.

People with physical and mental disabilities are more likely to show negative results than those who are healthy.

Conflicting evidence reported for effects on males and females.

Home to institution.—Very few studies.

Those forced to relocate don't tend to do as well as those who move voluntarily.

Those from dissimilar environments tend to do worse than those who move to a receiving environment which is similar to the one they just left.

Institution to institution.—Conflicting evidence as to whether mortality rates increase following relocation—most studies would say yes.

Those people with debilitating characteristics have more trouble adapting than healthy individuals.

Psychotic and neurotic patients more vulnerable to a move.

Attitude important in determining adjustment.

SECTION III. RELOCATION PREPARATION PROGRAM HIGHLIGHTS

Introduction

Many of the relocation studies have indicated that older individuals frequently do not readily adapt to a new environment. A common thread running throughout the relocation literature has been the role stressful situations play in increased morbidity and mortality. Control, or perceived control, has been cited as an important factor in reducing the amount of stress associated with a change in living environments. Thus, the question arises: What if anything, can be done to facilitate adjustment to a new setting and reduce the potential "transplantation shock?"

Several relocation studies have implemented programs designed to prepare patients, families, and staff to the move. The findings of these studies are summarized, and potential techniques for facilitating adjustment are highlighted.

Preparation Program Research

Determining the benefits of a preparation program is confounded due to the many qualifying factors involved. In addition, once a program is designed and implemented it is difficult to assess what part each component of that program had in determining the overall results. The positive effects of the program by Jasnau (1967) and Zweig and Csank (1975) have previously been summarized. Gutman and Herbert (1976) implemented a program for 81 extended care male patients who were forced to move. The move was well-planned to prevent confusion. Patients were assigned to rooms according to friendships and compatabilities. In addition, all personal possessions were transferred. A one year follow-up of mortality rates found no significant difference between the expected and anticipated rates. No relationship was found between mortality rates and age, length of hospitalization, or mental status.

Pastalan (1976) implemented an extensive preparation program for involuntary relocatees in Pennsylvania. The impact of the program was measured by comparing mortality rates between the relocated population and the nursing home population at large. For 236 persons relocated between July 1975 and July 1976 the mortality rate was 11 percent, as compared to 26.6 percent for Pennsylvania and 27.5 percent for the United States. In addition, several factors were compared to post-relocation mortality. It was found that advanced age, poor prognosis, and confused mental status were strong predictors of mortality following the move. Distance moved and length of hospitalization by themselves did not present a clear picture of vulnerability. Mortality among 41 percent of those with a post-move rejecting attitude, and 14 percent among those who accepted relocation.

Three major components of the preparation program: site visits, personal counseling, and group discussion were correlated with mortality for age, and mental and physical status. Site visits were found to reduce mortality in the 66–80 year old age group, for persons with a fair prognosis, and for patients who were confused at the time.

TABLE 1.—SELECTED PATIENT CHARACTERISTICS AND MORTALITY[1]

Patient characteristic	Percent died	(N)	Percent survived	(N)
Age: *				
65	2	[illegible]	98	[illegible]
66 to 80	16	[illegible]	84	[illegible]
81 plus	30	[illegible]	70	[illegible]
Prognosis: *				
Poor	36	[illegible]	64	[illegible]
Fair	18	[illegible]	82	[illegible]
Excellent	6	[illegible]	94	[illegible]
Mental status: *				
Alert	13	[illegible]	87	[illegible]
Confused	27	[illegible]	73	[illegible]
Distance moved: *				
3 to 15 mi	20	[illegible]	80	[illegible]
15 to 45 mi	18	[illegible]	82	[illegible]
46 mi plus	27	[illegible]	73	[illegible]
Premove attitude: †				
Rejects	16	[illegible]	84	[illegible]
Neutral	26	[illegible]	74	[illegible]
Accepts	17	[illegible]	83	[illegible]
Post-move attitude: *				
Rejects	41	[illegible]	59	[illegible]
Neutral	29	[illegible]	71	[illegible]
Accepts	14	[illegible]	86	[illegible]
Attitude of old staff:				
Rejects	23	[illegible]	77	[illegible]
Neutral	12	[illegible]	88	[illegible]
Accepts	21	[illegible]	79	[illegible]
Attitude of family:				
Rejects	25	[illegible]	75	[illegible]
Neutral	14	[illegible]	86	[illegible]
Accepts	23	[illegible]	77	[illegible]

[1] Pastalan, Davis, and Haberkorn, "Interim Pennsylvania Report", May 1975.
† = χ^2, p = <0.02.
* = χ^2, p = <0.001.

Yet, site visits had little or no impact on the under 66 age group, those with an excellent prognosis, and those who were alert most of the time. Group discussions trended to help the alert patients, but in general had little to do with survival. Counseling sessions dramatically reduced mortality in the advanced age group of 81+, those with a poor prognosis, and both the confused and alert patient.

Summary—Preparation Program Highlights

All of the studies reviewed here found that although there is a danger in relocating some types of elderly people in some situations, a carefully designed preparation program can reduce the danger to some extent and facilitate post-relocation adjustment.

Involve the relocatee in the decision-making as much as possible.

Utilize as many pre-move site visits as the relocated person wants.

Personal counseling found to be beneficial.

Group discussion to allay fears.

Carefully plan the move so that the staff understands exactly what will be done and confusion can be kept to a minimum.

Relocation of all the resident's belongings.

Sensitize the family to the move and involve them in the planning process as much as possible.

Those people of advanced age, poor prognosis, and confused mental status are strong predictors of mortality following relocation, even when a preparation program is used.

Resident and staff social interaction was found to be an important factor in successful relocation.

Little mention was made in the studies as to post-relocation programs, or how long after relocation such procedures as group discussions and individual counseling should go on.

Most of the projects examined mortality and morbidity of patients one year after relocation. There are no long-range follow-ups of patient adjustment to relocation following a preparation program.

It is unclear how much each particular aspect of the programs was helpful, and what role the added attention played in the positive results.

For those people who move voluntarily from one home setting to another, little evidence was found of post-relocation decrements, and the move was often found to be helpful in the case where the nature of the environment was an improvement.

The greater the choice and control the individual had in being relocated, the less negative the effects of relocation there tended to be.

The more predictable the new environment was, the less negative the results were in general.

Those people of advanced age, poor prognosis, and confused mental status did not fare so well as those who were healthy.

There was some indication that those people who took an angry or philosophical attitude toward the move showed better adjustment than those who tried to deny the move or withdraw from activities.

Most of the studies did not find a relationship between length of hospitalization, educational level, occupation, or income and post-relocation adjustment.

The findings for adjustment differences between males and females were contradictory. There was some indication, however, that involuntary relocation is less traumatic for males than for females.

There were virtually no studies done relating race to post-relocation adjustment. The few studies that did mention it had a very small sample to base conclusions on.

Many of the studies found that the first three months immediately following the move are the most dangerous in terms of increased mortality rates.

Distance moved alone was not a clear predictor of vulnerability.

There was some indication that the attitudes of the family and the old staff toward patient relocation were not significantly related to mortality.

Site visits seemed to decrease mortality following relocation most emphatically for persons aged 66–80, for persons with a fair prognosis, and for those who were against the move.

Group discussions seemed to help the alert patients, but there was an indication that it was a negative factor for those with a poor prognosis.

Individual counseling was found to have a favorable impact on adjustment.

Counseling sessions were most dramatically associated with reduced mortality in the advanced age groups (81+), those with a poor prognosis, and both the confused and alert patient.

Those who moved involuntarily from home to home showed greater decreases in life satisfaction than those who made the same type of move voluntarily. One possible explanation for the positive results in the voluntary group is the improvement in housing conditions.

Studies of the home to institution move showed a clear distinction between those who moved voluntarily and those who were forced to move. Consistently, those subjects who moved voluntarily showed more positive results than those who did not. The degree of control in the pre-relocation environment was found to be an important predictor in the degree of adjustment following the move.

The institution to institution research tended to show that those who were forced to move had higher mortality rates than nonrelocated control groups.

In general, pre-relocation preparation programs increased the predictability of the new environment and effectively reduced mortality rates.

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APPENDIX

COMMONWEALTH OF PENNSYLVANIA

PREPARATION FOR RELOCATION PROGRAM COMPONENTS

Component	Objectives	Selected methods	Rationale
(1) Familiarization with old nursing home (by Relocation Team).	Development of rapport with staff and patients. Familiarization with nursing home environment and program.	Discussion with staff of your reason for being there, reason for the preparation program, how you plan to proceed, etc. Provide a proposed calendar of program to both staff and patients. Individual and informal meeting with patients and/or staff members. Observation. Cooperation game, role play, etc. Involve all levels of staff and patients for all stages of program.	To facilitate successful program implementation and completion. Gain cooperation and support of patients and staff.
(2) Family involvement....................	The support and assistance of patients' family and/or significant others regarding the move and preparation program.	General meeting led by you but including old and new administrative staff (exclusion of patients allows family to express emotion freely regarding the move). Meetings upon request of family and/or patient. Provide them with information regarding the necessity of the move, details of the move, assurance, etc., calendar. Allow family to accompany patients on at least some of the site visits. Keep families informed. Encourage families to visit more intensively during relocation period. Encourage family assistance on moving day.	Ongoing support and cooperation by families gives the patient much needed social support. Help in manpower needs for the preparation program and moving day.
(3) Familiarization with new nursing home....	Cooperation from new staff to the extent that the preparation program and moving day can be executed according to plan.	Discussion with staff to fully inform them of the need for preparation, and for their support and participation. Cooperation game, role play, etc. Solicit staff participation in scheduling and planning of site visits, moving day etc. Provide calendar as soon as practicable.	The preparation program site visits can not be carried out without the cooperation of these people. If new staff gets to know patients prior to the relocation and vice versa the social supports will be increased.

(4) Site visits	Each patient has a working knowledge of his new environment (mealtime procedure, programed activity, physical layout, staff and patients) prior to his relocation.	Patients are taken in small groups (5 to 6 per group). Each group visits the new nursing home a minimum of 4 times at a rate of 1 visit per week (group composition stays the same throughout the preparation program). Each group is accompanied by staff from both the old and new nursing home. At each site visit there will be a goal task: (1) participate in a meal and general tour, (2) participate in programed activity, (3) comprehensive orientation with reinforcing followup, and (4) structured staff-patient interchange and patient-patient interchange. At all visits present and incoming patients should mingle, i.e., eat meals together. All patients participate unless the M.D. states the visits are dangerous to the patient's health. Volunteers and family should be used as much as possible.	To make the transition as smooth and untraumatic as possible. To lessen fears of the unknown. To assist the patient in gaining environmental orientation. To make the realism of the move more obvious.
(5) Patient group discussions	Identification of particular concerns and questions of patients. Evaluation and review of site visits.	Group discussions are held in small groups (the same patients who go on site visits together should comprise the discussion group) and led by an old staff member. Include new staff occasionally (if possible). Encourage patients to speak out and ask questions. Probe patients regarding the site visits and new environment providing a review of previous visits. Hold discussion group at least once per week as soon after the site visit as possible. Group leaders should stay alert to individual problems which might be better handled on an individual basis. Utilization of slides, photos, or brochures of the new facility. Review calendar.	To reinforce the information gained in the site visit. To evaluate how the site visits are doing. To elicit and deal with patient concerns. As a social support mechanism for patients. To reinforce the reality of move.
(6) Moving	A smooth relocation with minimal disruption to patient care and life.	Move patients in groups of 5 or less per day. Accompany patients on the move (relocation or old staff). Make sure patients are settled before leaving the new facility. Give calendars to patients with their moving date noted. Let patients pack or assist in packing their belongings.	To give the patients a sense of control over what happens to them. To give them confidence they are not being abandoned in some strange, new place.
(7) Post-move followup	Identification of post-move problems and assistance in handling them.	Encourage new staff to pay special attention to relocated patients. Counseling. Visit by relocation team.	To provide as smooth adjustment as possible to the new environment.

RELOCATION PREPARATION PROGRAMS

DEGREE OF ENVIRONMENTAL CHANGE: HOME TO HOME—DEGREE OF CHOICE: VOLUNTARY

Study	Population characteristics	Methodology	Results	Conclusion
Carp (1967), Carp (1977)	204 voluntary relocatees. Same population pool followed up 8-yr later.	Compared relocatees with matched applicants to the same home. Subjects moved from a physically substandard and socially isolated living situation to a new and better environment.	Relocatees more satisfied with housing, had more friends, were more active, and had less need for special services than did nonresidents. At the end of the 8-yr interval 26 percent of the 204 original relocatees had died; 37 percent of the 148 in the comparison group had died.	Findings suggest that there can be a health benefit from a good living environment over the long range as well as the short.
Lawton and Yaffe (1970)	103 subjects in 3 groups	Each subject given premove health exam. New housing substantially better. 12-mo mortality check.	No difference in mortality rates between voluntarily relocated group and 2 matched control groups. Relocated group showed a greater decline in functional health.	Findings indicate that the voluntary nature of the move may moderate the associated stress.
Lawton and Cohen (1974)	574 applicants to home compared to 324 community residents.	Multiple regression analysis of relocatees and control group from community. Moved to a more modern environment.	Relocatees significantly poorer in functional health than community comparisons. Relocatees higher in morale and more involved in external activities.	Author unsure why there is a decrease in functional health while there are more favorable results in other areas.
Wittels and Botinick (1974).	732 total: 187 men; 545 women.	Those who moved compared to those who did not.	No difference in mortality rates between voluntary relocatees and controls.	Relocation of the type studied here does not incur greater risks of dying.
	All in good health	All had to be capable of independent living to be included in the study.	Deceased tended to be in less good health. No link between survival and education, occupation, and marital status.	
Storandt and Wittels (1975).	Moved to better living conditions Moved to same neighborhood	Compare relocatees to nonrelocatees Decisional control given to subjects	No health decrements No increased mortality	Control and choice important factors in postrelocation health.

DEGREE OF ENVIRONMENTAL CHANGE: HOME TO INSTITUTION—DEGREE OF CHOICE: VOLUNTARY

Study	Population characteristics	Methodology	Results	Conclusion
Ferrari (1963)	55 elderly relocatees	Compared 2 groups: 1 entering voluntarily and the other with no alternative.	Within the 1st 10 weeks of residence 16 of 17 (94 percent) in the voluntary group died; 1 of 38 (2.8 percent) in voluntary group died during same period.	Choice an important factor in determining postrelocation mortality.
Turner, Tobin, and Lieberman (1972).	85 (24 men, 61 women) All ambulatory, free of incapacitating illness, no signs of altered brain function.	Personality traits assessed pre- and post-relocation. Effort made to keep residents engaged in activities and interaction.	13 of 85 died in 1 yr. Those who actively sought interaction adapted better.	A vigorous, if not combative, style is facilitory for adaptation.
Schulz and Aderman (1973).	2 groups identical in health status	1 group from similar institution and the other from a dissimilar home environment relocated to an institutional setting.	Those patients who came to the institution from a similar setting survived nearly 1 mo longer, on the average, than patients who came from a dissimilar home environment.	Prerelocation control is a key factor in postrelocation health and adjustment.

Sherwood, Glassman, Sherwood, and Morris (1974).	2 group identical in health status	Discriminantly divided subjects into 2 groups according to those who had exercised more control over their previous environment. Pre- and postmove interviews.	For those who were used to exercising control, postrelocation life satisfaction decreased.	Response to institutionalization is a function of the prerelocation environment.
Camargo and Preston (1945).	683 cases examined over 3 yr 85 percent classified as having cerebral arteriosclerosis or senile psychoses.	Examined the records of 1st admission of patients over 65 to Maryland State mental hospitals.	In the 1st yr 47 percent died. Approximately 15 percent of all patients died during the 1st mo. Death rate higher for male patients (73 percent in 3 yr) than for female (59 percent in 3 yr). Mortality rates are 11⅓ percent greater than would be expected in the general population of the same age.	More detailed study is needed regarding postrelocation effects.
Blenkner (1967)	164 elderly subjects living in the community.	People interested in moving to an institution randomly assigned to service programs providing minimal, moderate, or maximal care.	Persons assigned to maximal support group had the highest mortality at the 6-mo followup. Those with severe brain dysfunction emerged as a major predictor of postrelocation mortality. Approximately ⅓ of those put in the maximal care group and were relocated died.	Some indication that there is a relationship between prerelocation care and postrelocation health.
Havens (1968)	Subjects had a high incidence of handicaps, but were generally capable of self-maintenance.	Subjects studied at 2 points in time: as they were located; as they remained in residence 2 yr later.	Results indicated that a low level of adjustment is associated with discontinuity.	Continuity of environments is an important factor in postrelocation adjustment.

DEGREE OF ENVIRONMENTAL CHANGE: INSTITUTION TO INSTITUTION—DEGREE OF CHOICE: VOLUNTARY

Jasnau (1967)	300 elderly individuals interested in moving from their present institutional setting.	A group which was mass-moved was compared to another in which each person was given individual attention. Program involved an intensive educational training period for staff at all levels. Preparation of patients emotionally.	The mass-moved group has increased mortality (by 35 percent) after relocation; the other group had lower than expected mortality rates.	Suggests that mass relocation without warning can be destructive. An adequate preparation can decrease trauma usually associated with change for the older patient.
Zweig and Csank (1975)	350 disabled elderly examined for 3 yr prior to relocation. All male, suffering from some chronic incapacity requiring more or less constant attention.	Individual counseling designed to relieve pressure and anxiety.	From the year before relocation to 1 yr after, there was a 6.82 percent decrease in mortality. The largest number of deaths during the study occurred during the year just prior to relocation, and the smallest number of deaths occurred during the postrelocation year.	A carefully designed preparation program can lead to reduced postrelocation mortality rates.

RELOCATION PREPARATION PROGRAMS—Continued

DEGREE OF CHANGE: HOME TO HOME—DEGREE OF CHOICE: INVOLUNTARY

Study	Population characteristics	Methodology	Results	Conclusion
Kasteler, Gray and Carruth (1977).	Random sample from 1,200 relocatees. 48 subjects 55 yr plus.	Relocatees compared to 268 elderly living in community (similar in age, sex, marital status, and education). Attitudes and activity questionnaire filled out pre- and postrelocation.	A significantly greater proportion of nonrelocated subjects showed average or better personal adjustment scores than did the relocated group.	Relocation can cause added stress and negative health evaluations.
Kral, Grad and Berenson (1968).	54 subjects, 40 of which show no psychological or neurologic illness.	Measured levels of plasma corticoids as an indicator of stress—before and after relocation.	Mortality rates significantly greater among psychotic patients than for those rated normal. Normal, aged men reported more negative effects after relocation than women. Within 23 mo, mortality rate of 42 percent for men; 20 percent for women.	Involuntary relocation among the elderly causes negative reactions which are reflected by an increase in morbidity and mortality.
Shahinian, Goldfarb and Turner (1968).	Random sample from several homes....	Physical exam and prerelocation interviews. Compare postrelocation mortality.	Increased mortality among those who were physically impaired initially. Mortality rate not as high among those rated as "most robust in physical functioning, mental alertness, and motor functionine."	Premove physical and mental health is important in determining postrelocation effects.
Markus, Blenkner, Bloom, and Downs (1972).	105 males, 208 females................	Interviews given 10 to 15 days prior to move. Data on mortality gathered for a period of 9 mo after relocation.	Age and sex by themselves do not provide predictability and postrelocation mortality.	The factors of physical and mental status attitude to change, and degree of hopefulness better predicators of postrelocation than age, sex, residency experience, and the voluntary nature of the move.
Brand and Smith (1974)....	68 elderly relocatees..................	Relocatees versus nonrelocatees........... Post and premove interviews.............	Unhealthy showed lower life satisfaction after the move. No difference in health status between relocation and nonrelocation group. Those who were more active showed better life adjustment after the move.	Physical and social stress contributes to the problem of personal adjustment of the elderly.
DEGREE OF OF ENVIRONMENTAL CHANGE: INSTITUTION TO INSTITUTION—DEGREE OF CHOICE: INVOLUNTARY				
Novick (1967)..............	125 extended care elderly............	Detailed attention paid to reducing fear and to preserving relationships and belongings.	15.2 percent mortality rate during the 1st yr after relocation, 9.8 percent less than the mortality rate in the same building during the previous year.	After a careful preparation program is implemented, the mortality rate can be lower than that experienced during previous years in the same institution.

Ogren and Linn (1971)......	2 groups of elderly matched for age, health, marital status, and length of hospitalization. Total of 82 subjects.	2 groups: T (transfer, N=41; NT (nontransfer, N=41). Heavy involvement of family in preparation program.	No significant difference between T and NT in terms of mortality. After 6 mo, 68 percent of NT alive, 80 percent of T alive. Of those who died, those with slightly higher disability scores tended to be among them. In general, the patient who died was a few months older, had fewer next of kin, had had more previous hospitalizations, but a shorter length of stay than the rest of the group.	Relocation in this case did not seem to be too traumatic and may have even contributed to extending these patient's lives.
Liebowitz (1974)...........	48 subjects—moderately impaired......	Moved to a similar environment that they came from. Subjects rated in terms of attitude, personality traits, and overall adjustment. Program highlights: (1) small group discussions; (2) letters of explanation to families, family involvement; (3) prerelocation visits to new rooms; (4) individual family counseling; (5) total staff involvement, everyone moved on the same day to promote group cohesiveness.	No increase in mortality rates—only 2 subjects died during the 4-mo postrelocation period. Some short-term stress was evident, but "affect-states" returned to baseline levels by the 2 week postrelocation mark. Those rated neurotic showed the worst adjustment.	Relocation does not necessarily mean long-term negative effects. Care should be taken not to generalize these findings to all types of moves.
Bourestom and Pastalan (1975).	61 subjects experiencing radical change. 61 experiencing moderate change. Control group—matched for sex, age, length of stay, and health status.	Premove health and psychological well-being recorded. Major preparation differences: experimental group allowed to visit site repeatedly; control had 1 visit and then only cueing by multiple audiovisual stimuli after that.	Mortality rate during the 1st yr of relocation was significantly higher than would have been expected based on the institution's normative mortality rates. Death rates for the radical change group were double those of their matched nonrelocated counterparts. Within 1 yr of the move, more than half of the single visit group had died (52 percent). The rate for the patients who had made 4 visits was 27 percent.	While relocation had negative effects for people of all ages in the sample studied, it appears to be most harmful for those of very advanced age. Relocation appears to be less traumatic for males than for females. Length of hospitalization appears to be unrelated to death rates or self-preception of health. A premove preparation program is effective in reducing mortality. To be effective it should involve the staff at the pre- and postrelocation site, involve repeated physical visits, and allow adequate time for planning and preparation so patients can settle and staff can absorb the new patient load.
Pastorello (1975)...........	200 intermediate and skilled care residents moved to a nearby new facility. 38 percent initially expressed strong preferences not to move.	Preparation program involved: (1) premove tours; (2) individual interviews; (3) direct resident input in planning decisions; (4) participation of families; (5) use of cohesive social groups.	Nonsignificant physical functional impairment following relocation. Stress not a significant result.	Resident and staff social interaction throughout the period of the move can be an important factor in successful geriatric relocation.
Gutman and Herbert (1976).	81 male patients forced to move from an extended care ward required continuing medical surveillance on a 24-hr basis.	The move was organized and well-planned to prevent confusion. Patients assigned to rooms according to friendship and compatibilities. All personal possessions transferred.	Death rate equal to the mortality rate of the previous year for the same institution. No relationship between mortality rates and age, length of hospitalization, or mental status.	With careful planning of the move, involuntary relocation of an unselected elderly population with a high proportion of confused and physically ill patients need not result in increased mortality.

RELOCATION PREPARATION PROGRAMS—Continued

DEGREE OF ENVIRONMENTAL CHANGE: INSTITUTE TO INSTITUTE DEGREE OF CHOICE: INVOLUNTARY—Continued

Study	Population characteristics	Methodology	Results	Conclusion
Pastalan (1976)	236 relocatees forced to move in Pennsylvania.	Major components of the program: (1) site visits; (2) personal counseling; (3) group discussions; (4) sensitivity training for staff and family; (5) relocation of all residents' belongings, (6) each resident participates in the relocation decisions as much as possible.	Mortality rate was 41 percent for those with a postmove rejecting attitude; 14 percent for those with accepting attitude. For 236 relocatees the yearly mortality rate was 11 percent as compared to 26.6 percent for Pennsylvania and 27.5 percent for the United States.	Advanced age, poor prognosis. Those with a neutral attitude die at a higher rate. Attitudes of the family and old staff toward relocation do not seem to be significantly related to mortality. Findings support the importance of having the relocated resident have a sense of involvement in the change of environment.
Bourestom and Tars (1974).	96 institutionalized elderly	2 groups of involuntary relocatees compared to a nonrelocated control. 1 group had to relocate to a new staff, new program, new physical environment, and a new patient population. Other group only had a physical environmental change to a nearby building.	Higher mortality rate found in both relocated groups. Of the radical change group, 43 percent died in 6 mo preceding and 1 yr following relocation; 23 percent in control group. Relocated subjects in radical change group grew increasingly pessimistic regarding their state of health. Death rates for radical group highest in 3 mo preceding and 3 mo following moderate group peak death rates 7 to 9 mo following the move.	It is not the nature of the physical environment which is of importance, but rather the control variable which accounts for the deterioration or improvement among patients. It is very important they have control or perceived control.
Markson and Cumming (1974).	2,174 psychiatric patients, most chronic	Change from a less active environment to a more active one. No control group.	Slightly less than 1 in 10 of the elderly transfer patients died during an 11-mo period following relocation.	Mass relocation of relatively physically healthy patients has no demonstrable effect on the mortality chances of those patients who must be relocated.
Aleksandrowicz (1961)	Elderly, extended care	Fire forced subjects to be moved to another ward.	Although no residents suffered any physical injuries from the fire, a 20 percent-death rate was recorded within 3 mo after relocation compared to 7.5 percent in the 3 mo preceding the fire.	Appears to be a danger of mortality in the aged following relocation, particularly the 1st 3 mo following the move.

Aldrich and Mendkoff (1963).	233 institutionalized elderly	Forced to move without regard to their state of health or family relationships. Comparison of actual mortality rate 1 yr later to anticipated.	51 of the patients died before relocation. Death rate for the remaining 182 after relocation was 32 percent (anticipated 19 percent). Men mortality, 34 percent; women, 31 percent. Number of deaths in the 1st 3 mo was substantially higher than during the rest of the year. Death rate for psychotic or near-psychotic was found to be statistically significant. For patients showing a philosophical or overtly angry response to the news of relocation, mortality rate especially low.	The danger of postrelocation mortality appears to be greatest among helpless and psychotic elderly people—the very type that tends to be relocated the most. 1st 3 mo following relocation are the most critical in terms of mortality.
Aldrich (1964)	Followup involving 26 patients who died postmove, and another group who survived.	Compare characteristics of those who survived to those who died during the 1st 3 mo following relocation.	4 times as many psychotic residents died as survived. Those who were satisfactory, angry, or demanding were more likely to survive. The same number of neurotic or depressed residents died as survived.	Among aged people psychological, pattern of adaptation and specific types of emotional response to stress are significant determinants of survival.
Miller and Lieberman (1965).	45 women. Free from any incapacitating mental or physical illness.	Interviews to measure premove psychological characteristics. Compared actual mortality rate to mortality records at the hospital for past 15 yr.	After 18 weeks no significant mortality differences. Half the subjects declined either physically or psychologically. 7 of 8 classified as "deniers" or "withdrawers" became seriously ill or died. No relationship found between adaptive abilities and negative outcomes.	Although in general relocation does not lead to an increase in mortality, certain types of aged seem to be more susceptible to the effects of the move than do others.
Killian (1970)	3 groups matched for age, sex, race, mental and physical health, ambulatory facility, and length of hospitalization.	3 relocated groups compared to similar nonrelocated groups.	Mortality rates were 4.98 to 8.99 times greater for transferred than nontransferred. Older, nonambulatory subjects had higher mortality rates than their counterparts. Sex, race, organic, or functional diagnosis, and length of hospitalization revealed nothing statistically significant.	It is important to keep the patients' interests firmly in mind and to be cognizant of the potential effects of environmental change.

Appendix 2

Additional Material Submitted by Mr. Studnicky

Case Study of Condominium Conversion Where Average Age Was 74

JPS Associates, Inc.,
Washington, D.C., April 22, 1980.

Memorandum

To: Jack Studnicky.
From: Mary Lankford.
Re: Plaza West.

BACKGROUND

Plaza West is a 347 unit deluxe rental apartment building located in the South Miami Beach area. The apartments are spacious and rental prices in comparison to other rental units in the area are below average. Many residents are elderly and a few are handicapped.

On February 5, 1980, the residents were notified that the building would be converted to a condominium. The residents were offered relocation expenses of $2000 if they moved out within 120 days and $1500 if they moved out after the 120 days but before 160 days. The response ot the offer was overwhelming. Within one month after the notice, 152 residents had found housing; within two months approximately 243 residents had signed up to receive the relocation expense. The following is a breakdown of where residents are relocating to:

Less than 1/2 mi from Plaza West	62
More than 1/2 mi but less than 2 mi from Plaza West	24
Other areas of Miami Beach	82
Out of the area (Broward County, out of State, seasonals returning home) and unknown	75

RELOCATION

A relocation coordinator was hired to assist the residents in finding other residence. The relocation coordinator spent many hours looking for apartments, counseling residents; advising residents of where to look, and personally taking them to look at apartments.

FINDINGS

Many residents are elderly, looking upon Plaza West as their retirement home and intending to spend their remaining years here among friends. Change at this stage of their lives is very traumatic and frightening. Many have lived here since Plaza West opened its doors 13 years ago. Many consider the conversion as breaking up their family. They depend on each other for help and probably by living here they are holding onto their last hope of independence. Many are widows who just find it difficult to get out and look, they are frightened.

There is the bright side also. A few residents were able to move into subsidized housing arrangements and pay less rent. Some of the elderly moved into a hotel-type arrangement where maid service, meals, and linens are provided. A few were just happy to move and receive the $2,000 because they made the decision to relocate near their families out of state.

Many of the residents, once they made up their minds that there is no alternative but to move accepted the conversion and are able to put their lives in the right perspective.

CONCLUSION

Six months' notice of condo conversion is sufficient to notify tenants. The media is responsible for many negative feelings toward condo conversion. There is housing available in Miami Beach—maybe not at the rental price of Plaza West—but rental apartments can be found. Some residents have had to "pay under the table" to rent apartments in certain buildings. True, some housing is below standard. Shortage of rental housing in South Miami Beach has been caused partly by the South Shore Redevelopment Plan which had prohibited new construction in a large area of South Miami Beach. Also, how much housing is for "seasonals" only, as many places close when the season is over.

Condo converters should pay towards the relocation expenses of residents. Security deposits should be refunded when people vacate or maybe prior to leaving.

Cities should be move involved with the residents of condo conversions. Not one person from the City of Miami Beach government came forward to assist residents or advise them where housing is available.

Retirement homes are desperately needed and should be built on a large scale basis. There is a 2 to 3 year waiting period at most retirement homes. Some residents resent letting thousands of foreigners into the country and providing them with food, housing, and clothing and they receive no help. Not one organization or church has offered to assist residents here at Plaza West.

Some type of incentive financing should be offerred to investors who purchase condo units and rent to elderly tenants.

Attached are a few letters from former tenants at Plaza West.

Attachments.

APRIL 8, 1980.

DAON CORP.,
Plaza West, 800 West Avenue,
Miami Beach, Fla.

GENTLEMEN: I am a former tenant of Plaza 800, or Plaza West, having resided there for 13 years.

I want it understood and perfectly clear that this letter has not in any manner een solicited, but is written entirely of my own free-will and accord.

May I take this opportunity to tell you that each member of your organization, with whom I have had contact, has treated me with full respect and cooperated with me in every way.

I, particularly, want to say a few words about Mrs. Mary Lankford. I have had he opportunity, on a number of occasions, to hear and see this lady in action. ncidentally, having operated a heavy equipment business of my own, in the years one by, I learned to appreciate fine, intelligent and loyal associates, who at the ame time did not neglect the customers (in your case, the Tenants). I personally hink Mrs. Lankford is a great asset to your business and I am quite certain you now more about her qualifications than I could ever attempt to tell you.

Your Mr. Sam Albaum, in my opinion, handled his tough assignment admirably, r your company, as well as the Tenants.

And, I must not forget the little lady in the office, whom I only know as Pandi, n efficient person, also in a tough job.

As far as I am concerned, your organization is to be commended for the sincere terest, the consideration and compassion shown by all of you, including, of ourse, your top officials.

If I can be of any service, in any way, at any time, please do not hesitate to call pon me.

Wishing you success in all of your ventures, I am

Sincerely yours,

ARTHUR WHITEMAN.

MAY 19, 1980.

AON CORP. MANAGEMENT,
iami Beach, Fla.

DEAR SIRS: This is a letter of appreciation and thank you.

When I first received your registered letter notifying me that I would have to ove, I felt like everybody else in the building did, very unhappy about it. Very gry at your company and Mr. Goodman for doing this to me. I was very happy re, everybody was my friend. The thought of breaking up this friendship, we e a close family was heartbreaking.

Then when I thought of moving and all the work it involved I knew I could er manage it. I am lame and handicapped in other ways and can't do very ch.

Your letter stated that your office staff would help us all they can. I called r office and Mrs. Lankford spoke to me. I felt better after talking to her, e said she would help me and she did. She took me to select an apartment ich was a great thing for me as I have to take a cab everywhere I go and you can't go looking for apartments in a cab. Mrs. Lankford and Mr. Albaum in fact all your office have been especially nice and advised and helped me in many ways.

Gradually I lost my bitterness at you and realized this is business and somebody is bound to get hurt, but business must go on.

You have been very considerate of us with your money to defray our expenses, which was generous of you. It shows you have heart. Also to have an office staff that we can turn to. They are kind and have an open ear to listen to our problems which involves the moving and help us all they can.

I have moved now and hated to leave the building. I hope I will be as happy in my new apartment as I was here.

I have no grudge against you now and hope you will be successful in this undertaking.

Sincerely,

Bella Fox.

May 14, 1980.

This building at 2755 Ordway St. N.W. consists of only some 70 apts.

At least nine or ten of them are inhabited by the old and afflicted who have made this bldg. a long time home. In one way or another they each present a special hardship case, ranging from paralysis and failing vision to stroke victims. They are in most cases badly depressed and frightened at the prospects of this condominium onslought. They are confused by all the conflicting things they hear. Most are in their 70's and some are in their 80's.

I am one of them. I have lived here over 13 years. I am 72 years old and have a left leg prosthesis. (Left leg above the knee, artificial). I no longer walk well but can make it once or twice a week to the bank on the corner and the Safeway grocery next door. Such a location is almost impossible to duplicate, which puts me in a no choice situation.

My neighbor here is 80 years old and as a stroke victim is unable to understand or make reasonable decision as to her best interests. She relies mostly on my judgment.

Others are just holding on, worrying and hoping they can remain as renters.

It is my understanding that there are 26 apartments here that Legum and Norman won't rent in this desparate rental housing shortage. It seems a shame.

I would like to add that there is nothing luxurious about these apts except the rental rates which are fast approaching the $400.00 a month level for a one bed room apartment.

It is, however, our fond hope that we may be allowed to stay here as tenants.

Sincerely,

Edith E. Hickman.

APPENDIX 3

NATIONAL RETIRED TEACHERS ASSOCIATION,
AMERICAN ASSOCIATION OF RETIRED PERSONS,
Washington, D.C., May 20, 1980.

Hon. EDWARD R. ROYBAL,
Chairman, Subcommittee on Human Services, Select Committee on Aging, United States House of Representatives, Washington, D.C.

DEAR CONGRESSMAN ROYBAL: This letter is written in response to your request to witnesses at your hearing on April 15, 1980, for a very brief statement of the steps which each of us feels are most necessary to alleviate the distressing circumstances of the elderly renter in today's real estate market.

The facts are these:

1. There is a rental housing shortage in many cities of the country today with a vacancy rate of five percent or less.
2. Development, ownership and management of rental property is not lucrative enough to attract money on today's market.
3. The building industry does not respond to housing needs for low, moderate or fixed income people without government subsidy.
4. Older renters, whose income is both fixed and limited, when faced with a notice of condominium conversion, find themselves unable to meet the down payment requested and unable to meet the increased monthly payment.
5. Under the above circumstances, the tenant is evicted with no place to go, without regard for the traumatic effect of eviction on personal health and well-being. Assistance can come from federal, state and local levels. Your Committee is concerned with steps at the federal level to meet this difficult problem.

Our Associations have supported and will continue to support the type of legislation embodied in S. 612, introduced by Senators Stone and Chiles. Such legislation sets up certain minimum standards which must be met in any condominium development. Specifically, the legislation calls for full disclosure of all pertinent information necessary to an intelligent judgment by the buyer. In particular, it should be required that the conversion would need to qualify for VA or FHA financing. This would also permit older tenants to apply for mortgage loans which, without such financing provisions, would not allow them to qualify for such loans. These national standards for disclosure could be waived as to any state which has standards equally or more strict than the federal standards. Federal legislation should permit the buyer to disaffirm any contract entered into by the developer with himself before the purchaser obtained title.

Also, such legislation should guarantee a minimum time of 120 days to vacate the premises after receipt of a notice of conversion. The tenant should be given a right of first refusal of any offer to sell which the developer makes with respect to potential buyers, and the tenant would have a minimum time of at least 120 days to consider whether to purchase or reject the offer.

In addition, our Associations believe that a tenant ought not to be forced out of his tenant status while a vacancy level of rental units in a community is less than three percent of the housing stock. Assuming a higher vacancy rate, a tenant ought to be entitled to have some help in relocating, including the cost of relocation paid for out of a tax on the sales price of the condominium or paid for by the converter as a part of the total cost of conversion. Tenants wishing to buy should have financial assistance. This may be by way of a state housing finance agency or through mortgage guarantees. Such tenants should have available to them housing counselling information and relocation counselling service. Developers should be required to submit a reasonable relocation-assistance plan and to pay reasonable relocation expenses. Such assistance should be available on a federal basis if not provided for on a state or local basis.

As an alternative to forcing low income renters out of an occupied unit, use of Section 8 should be broadened on behalf of elderly households to cover mortgage and condominium fee payments in excess of 25 percent of income with a provision for recapturing the subsidy, except for some or all of the equity built up by th occupant's payment, when the unit is sold. Section 8 should be made available s that the federal government would pay the difference between 25 percent of incom and the cost of remaining in the unit, subject to reasonable cost controls.

Sincerely,

JOHN B. MARTIN,
Legislative Consultant.

APPENDIX 4

IDI—INTERNATIONAL DEVELOPERS, INC.,
Rosslyn, Va., June 19, 1980.

Hon. EDWARD R. ROYBAL,
Chairman, Select Committee on Aging,
House of Representatives,
House Office Building Annex 1,
Washington, D.C.

DEAR CONGRESSMAN ROYBAL: Once again, thank you for allowing me the opportunity to appear before your Committee. I hope my testimony will be of help to the Committee in developing a meaningful program to support the elderly in meeting housing needs.

My company, International Developers, Inc., and I endorse the provision of specialized programs to enhance the ability of all members of our community to own or rent decent affordable housing. Condominium conversions as an alternate form of housing should not be an exception to the rule when it comes to meeting that demand.

As I agreed to do at the hearing, I am providing, here enclosed, some specific suggestions to the Committee with regard to programs that could be undertaken and endorsed by your Committee. Therefore, this letter and the attached suggestions hopefully would be added to my original testimony and entered into the official record.

My suggestions will need further indepth study by your staff and the staff of various Federal Agencies. I would be more than happy to assist in such further study. I believe these suggestions represent reasonable approaches which if implemented could serve the purpose and intent of the Select Committee on Aging.

Thank you again for the opportunity to present my thoughts.

Sincerely yours,

GIUSEPPE GECCHI,
President.

Enclosure.

SUGGESTIONS TO THE SELECT COMMITTEE ON AGING

(By Giuseppe Cecchi)

The following represents a list of specific programs I feel the Select Committee on Aging should pursue in order to best serve the housing needs of the elderly.

1. Local windfall property tax revenue

While I recognize that the Federal Government cannot directly affect the expenditure of local funds, I feel that the Federal Government could create incentives to encourage local government support. Additional federal funds could be allocated to localities which could be earmarked for use in specific housing programs. The existing Community Development Block Grant Program (CDBG), for example, could earmark funds for housing for the elderly on a local matching basis permitting allocation with some degree of flexibility to various elderly housing programs.

2. Loans to the elderly

There are many existing loan programs which could be used as a vehicle for encouraging, rather than discouraging ownership of converted units. More importantly, these converted units would represent an increased in the supply of units available to those on fixed incomes who otherwise cannot afford to own their own units. This concept, if implemented, would build upon the condominium conversion yet another alternative to the high cost of housing typically found in the single family market. More aggressive existing loan programs, available through FHA and GNMA, but not encouraged for condominiums, could provide financing for low or fixed income elderly families allowing them to qualify for condominium unit purchases. Finally, the Federal Government could provide a revolving fund for loans where through recapture and regeneration of those same funds there would be a revolving supply of mortgage money available to support ownership of converted units on a continuing basis.

3. Capital gains tax consideration

As an incentive to developers to provide programs which avoid displacement of the elderly, certain tax considerations could be provided. Such tax treatment could be based on the proportion of the number of elderly families buying or renting in a condominium conversion project to the total number of units converted. The condominium developer could then realize a tax advantage on that proportion or percentage of his profits earned in a given year through capital gains treatment of that portion of the net income. Such favorable tax consideration would provide an incentive to developers to create specialized programs to provide every possible means for the elderly to remain in a conversion project as an owner or as a tenant.

4. Tax credit for the elderly owner occupant

In 1975, the Federal Government provided tax payers the means of realizing a 5 percent tax credit up to a $2,000 maximum for purchasing new housing. The intent of the legislation was to encourage home ownership and to stimulate the housing market which had experienced a severe downturn. Similar legislation with the same magnitude of incentives could be created to encourage home ownership among any sector of the population, for example, the elderly. The tax credits could be made available to those families who take advantage of various builder discount programs and who ultimately purchase their units and qualify as elderly persons under criteria established by the Federal Government.

5. Tax credit for the owner of a unit occupied by the elderly

If the purpose is to discourage displacement of elderly familes, then similar tax incentive should be afforded to owners of units occupied by elderly families. An investor owning such a conversion unit will undoubtedly seek to rent the unit in order to offset a negative cash flow. Typically, an owner would seek the highest possible rent from the most qualified persons interested in leasing the unit. Many elderly families would not qualify with their fixed incomes, and might find themselves displaced because they are unable to afford the fair market rents sought by the investor owners.

As an incentive to the owner to maintain occupancy by an elderly family and to establish reasonable rates and conditions, a tax credit to the owner in the amount of $1,000 or equal to two months' rent could be offered. As a direct incentive to investor purchasers, such a mechanism would conceivably have the effect of reducing displacement and encouraging the offering of long term leases, an alternative to ownership discount programs which has proven very effective in various conversion projects to date.

APPENDIX 5

THE CONVERSION OF RENTAL HOUSING TO CONDOMINIUMS AND COOPERATIVES

A National Study of Scope, Causes and Impacts

Division of Policy Studies

June 1980

FOREWORD

This landmark national study of the extent and impacts of condominium and cooperative conversions promises to be of major policy and program significance. It also vividly demonstrates the importance, to an agency such as HUD, of maintaining a substantial in-house research capacity that can be mobilized quickly to respond to a priority Congressional mandate. In this case, that mandate was to deliver, in a very short time period, a high quality research study requiring the collection and analysis of national data.

The readers of this report are undoubtedly aware that, up to now, most information on conversion activities has been largely anecdotal, highly localized or incomplete, not susceptible to place-to-place comparisons, or has been produced by organizations which represent specific client groups and their respective points of view. Recognizing this, we decided to make the most important objective of our study the development of a national picture of conversion activities. This type of policy study is intended to initiate, frame and inform the policy debate without drawing closure around it. Hence, we emphasize consistency in our place-to-place definitions, and stress the accuracy of our information. This allows us to assess, with a high degree of confidence, impacts of conversions across a wide range of housing markets, programs, and policy issues.

By emphasizing place-to-place consistency and accuracy in our national data collection effort, it is likely that some of our findings will vary from those produced in local studies or those anticipated by local observers. I expect, therefore, that the national benchmarks contained in our study will generate lively policy discussion and debate at all levels of government and in the private and community sectors. We welcome such discussion both with respect to our research approach and to the policy implications of our findings.

This study was designed and carried out by research staff in the Office of Policy Development and Research. Michael A. Stegman, Deputy Assistant Secretary for Research, was responsible for overseeing the project. It was prepared under the general supervision of Martin D. Abravanel, Director of the Division of Policy Studies. Kathleen A. Peroff directed the study. I am proud of their collective efforts and of the fruits of their labor.

Donna E. Shalala

Donna E. Shalala
Assistant Secretary for Policy
Development and Research

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Glossary

SUMMARY

The recent growth of condominium and cooperative conversions is a response to basic changes in the Nation's social and housing market conditions which, in its course, helps some and hurts others. For this reason, conversion has sparked considerable controversy -- a controversy exacerbated by the shortage of information about what is taking place. This report, prepared in response to a Congressional directive, presents the results of a multi-faceted study designed to provide this information. It documents the present and probable future extent and location of conversions, the factors contributing to their increasing numbers, and their effects -- on people, neighborhoods, and communities. As will be apparent, the scope, causes, and consequences of the conversion phenomenon are, in many ways, quite different than is generally understood.

* * *

Conversion changes the legal form of a multi-family rental property from single ownership by a landlord to multiple ownership. In most condominium conversions, the landlord first sells the property to a developer specializing in conversion who then sells the individual units. Most conversions are accompanied by some minor or cosmetic improvements to the property's condition, equipment, or amenities; however, a few conversions have involved the substantial rehabilitation of older buildings.

Up to now, the number of conversions which have taken place in the Nation has generally not been known because of the difficulty of assembling information from local public records, because the processes which govern conversions in various housing markets differ, and because of differences in terminology regarding conversions across these markets. Having a common definition which applies across jurisdictions is a prerequisite for arriving at a national count and analyzing the significance of the volume of conversion activity. For the purposes of this study, a rental building is considered to be converted to condominium ownership when the first unit is sold as a condominium. In New York, where most of the Nation's cooperative conversions occur, a rental building is considered to be converted to a cooperative when the legally required number of tenants have purchased shares.

Very few rental properties were converted to multiple ownership in this country prior to 1970. Since then, 366,000 rental housing units have been converted. Of these, only 18,000 are cooperative conversions. The rate of conversion has been accelerating: in the period 1977 through 1979, 260,000 units were converted, 71 percent of the decade's total. To date, conversion activity has been concentrated in larger metropolitan areas: 70 percent of all conversions have occurred in the 37 largest SMSAs, and 59 percent have taken place in just 12 of these areas. There is some evidence, however, that the conversion phenomenon may be expanding to or increasing in smaller metropolitan areas.

Within the largest metropolitan areas of the Nation, a surprisingly large amount of conversion (49%) has occurred in suburban jurisdictions; the remaining 51 percent has taken place within central cities.

By the end of 1979, 1.3 percent of the Nation's occupied rental housing stock had been converted. However, there is considerable variation from one metropolitan area to another, as well as within each area. For example, in the New York City and Los Angeles areas, 1 percent of all rental units were converted during the 1970s, compared to 6 percent or more in the Chicago, Denver and Washington, D.C. areas. There are some atypical suburban communities and smaller cities where as much as 20 to 30 percent of the rental stock has been converted, and a few sections of cities where more than 30 percent of the rental stock has been converted.

Nationally, the volume of condominium and cooperative conversion activity is expected to increase through 1985. The analysis suggests that the number of conversions will increase each year, but at successively decreasing rates. A trend-line projection of conversion volumes through the year 1985, based on past experience but modified to consider supply, demand, and current financial market factors, suggests that about 1.1 million rental units will be converted during this six year period. Of course, future conversion volumes may be influenced by many currently unknown factors, including long-term financial conditions, government regulation, or any changes which may be made to the Federal tax code.

There are a few metropolitan areas where the supply of rental properties most suited to conversion (using market-derived standards which have applied to date) will be nearly exhausted within five years.

Conversions have been more numerous in metropolitan areas characterized by strong and growing market demand for homeownership. Conversions are not, as some market specialists believe, associated with distressed rental markets. For example, there is no evidence that conversions are concentrated in metropolitan areas with higher than average rental vacancy rates or depressed rent levels. Furthermore, legislated rent controls are not necessary conditions for or leading causes of conversions, if for no other reason than that so few of the jurisdictions with conversions have enacted such measures.

In most parts of the country, however, average operating margins for rental properties do appear to be declining. This has contributed to apartment owners' willingness to sell their buildings to converters. For many rental property owners, no projected amount of rental income, allowable tax depreciation, property appreciation, or tax sheltering can equal the return received on the sale of their properties for conversion. Strong demand for the kinds of housing represented by condominiums and cooperatives, combined with potentially large profits, has made converters willing to pay prices for rental properties that are far in excess of what these buildings could command based on continued use as rentals. The ability of converters, then, to turn over individual units in these buildings for higher prices is, in great measure, a function of increasing demand for homeownership which is fueled by rising incomes and inflation. Recent inflation also tends to shift the homebuying demand of an increasing number of middle-income households from traditional single-family houses, that may be priced too high, to less expensive condominiums and cooperatives.

The number of conversions tends to be somewhat greater in metropolitan areas which are characterized by growing household populations and larger proportions of households having one or two persons or headed by an individual 35 years old or less. Conversions are also somewhat more numerous in areas where more households have incomes above $25,000, where luxury buildings form a higher proportion of the rental stock, and where the rental housing stock is relatively new.

Conversions are products of a shift in housing demand, and a corresponding shift in the use of the existing housing supply away from rental toward ownership. The net effect of conversions on the balance of supply and demand can be estimated by considering the pre and postconversion tenure status of households affected by conversion. Those renters who buy contribute to a reduction of overall renter demand; many converted units remain available as rentals; and some tenants move out upon conversion and purchase a unit elsewhere. The cumulative effect of these factors contributes to a significant moderation of the actual supply impact on the rental market. This analysis indicates, nationally, that for every 100 rental units converted, there is a net increase of 5 units for sale to owners, and a net decrease of 5 available rental units. In other words, when changes in demand and supply resulting from conversion are juxtaposed, the effect on the rental market is considerably less than the total of all units converted.

Based on these figures and the volume of conversions nationally, the net effect of conversions on the rental market has been to reduce the Nation's supply of available rentals by 18,000 units in the 1970 to 1979 period.

The impact of conversions can also be assessed in relation to other components of change in the rental housing market. Considering total demand for rental housing, the amount of new rental housing being produced, and losses to the rental inventory through various means, there has been a shortfall of rental housing in the last several years. Conversions have contributed to this shortfall. For example, in 1977, they accounted for 17 percent of excess demand over supply. Unlike other losses of rental housing, however, conversion often results in a concomitant reduction in renter demand because previous renters become homeowners.

Conversion can produce either very substantial or minimal movement of households in and out of converting buildings, depending on the proportion of prior tenants who either buy converted units or remain in the buildings as renters. Of all households occupying units in buildings that were converted after January 1977, 58 percent had moved out as of January 1980. The remaining 42 percent continued to live in the buildings as either owners (22%) or renters (20%) along with new occupants who had moved in since the conversion; most of the new occupants (41% of all current residents) owned their units but the remainder (17%) rented. Consequently, the residents of these buildings after conversion were 63 percent owner occupants and 37 percent renters.

Of the 37 percent of postconversion residents who rent their units, about one-half currently lease from the converter/developer and one-half from investors or relatives. That there are households renting from converter/developers reflects the fact that some recently converted buildings are still in the transition process: a portion of these renters are finishing out current leases; and a portion are continuing to rent, as permitted by local law. Some of these units may also be held as long-term investments by the converter.

Thirty-nine percent of converted units are bought by households earning more than $30,000 annually; but, since converted rental units are often less expensive than newly constructed condominiums and cooperatives or single family homes, they also provide a new avenue of ownership for smaller, younger households who have incomes insufficient to buy other types of housing.

Nearly two-thirds of the owner occupant households in converted buildings are headed by an individual who holds a professional or managerial position; about one-half are 35 or younger, while only one-fifth are over 55, and only 9 percent are over 65. About 10 percent of the owner occupiers of converted units are black, whereas only 7 percent of all owner occupants in the Nation are black.

Fifty-seven percent of the owner-occupant households in converted buildings are single persons (36% single women and 21% single men) compared to merely 14 percent (10% women and 4% men) of all owner occupants in the Nation.

Compared to all owner occupants nationally, fewer owner occupants of converted buildings are elderly (9% versus 22%). When buyers who previously rented in the converted buildings are compared with buyers coming from outside, the former tend to be older and to have higher incomes.

Two-thirds of all owner-occupants name economic factors as their primary reasons for buying: to gain a hedge against inflation; to stabilize housing costs; to provide a tax shelter or investment; to find an alternative to single family housing; or to obtain a buyer discount. Tenant buyers are more likely than outside buyers to say they bought because they liked the location and did not want to move.

Most of those who buy converted units increase their expenditure for housing. Total monthly outlays made by tenant buyers are typically 36 percent higher than what they paid in rent, while the median increase in monthly housing costs for buyers coming from other housing is 62 percent; however, these figures do not take into account tax benefits associated with owning a home or potential appreciation.

Those who do not buy but either move from converting buildings or remain there as renters come from all age and income categories. Renters in converted units tend to have lower incomes than owners in the same buildings, but incomes that are much higher than all renters nationally. While 39 percent of converted unit owners earn over $30,000 annually, only 22 percent of renters have this level of income.

Tenants of converting buildings typically are given about 70 days by the converter to decide whether or not to buy. Many tenants are distressed -- at least initially -- by the prospect of conversion. About one-fourth of tenants who bought or continued to rent their units after conversion report that they felt under pressure to buy; the pressure was not so much caused by harrassment or high pressured sales tactics as it was by being faced with an unanticipated housing decision. However, nearly three-fourths of those who move from converting buildings (former residents) say that they felt under pressure, more than likely caused by the disruption and uncertainties associated with such a move. More elderly than non-elderly tenants (28% versus 18%) felt pressured by the conversion experience.

One-half of all former residents of converted buildings had some difficulty in finding new housing; elderly, non-white, and lower income former tenants are more likely to report such difficulty.

One of the major concerns relating to conversion is the extent to which it involuntarily displaces prior tenants. Including both those who had moved out as of January 1980 (58%) and those who continue to rent but may yet move (an estimated 8%), the average proprotion of prior tenants who move out following conversion may be as high as two-thirds. However, not all of these moves will be involuntary; nationally, nearly 40 percent of all renters move at least once each year.

If displacement is defined as movement to rental housing that is of similar or lower quality at higher cost, or of lower quality at equivalent cost, then 18 percent of all households (27% of households with persons age 60 and over) who moved from converting buildings have experienced the adverse effects of displacement; this is equal to 10 percent of those who resided in converted buildings prior to conversion. Another 6 percent of all former residents moved to lower quality housing renting for less than they had paid prior to conversion.

Some conversions require people with low or moderate incomes to move because they cannot afford to buy their apartments. About 42 percent of those who moved out of converted buildings had incomes which, according to generally accepted criteria, were too low to have permitted them to buy their converted units; 47 percent of all former residents say they did not purchase because they believed they could not afford to do so.

Seventy percent of all former residents continue to rent after conversion, and they typically experience rent increases of less than 10 percent; however, 28 percent pay at least 25 percent more for rent. Those former residents who decide to buy housing elsewhere typically pay 68 percent more per month for housing, without taking into account possible tax savings and appreciation. Less than one-fifth of all former residents consider their new residence to be inferior to the one they lived in prior to conversion.

Ninety percent of all former residents indicate they are satisfied with their new housing; this is roughly the same degree of housing satisfaction reported for those replacing them in the converted buildings. Nearly three-fourths of all former residents have moved to a new neighborhood as good as or better than their old one. Eighty percent live as close or closer to friends and relatives as before the move. Those with lower incomes, however, are more likely to report that their neighborhood is worse than the old one.

Forty-three percent of all former residents are under age 36 and one-fifth are over 65.

Those who move have incomes that are, on average, lower (20% under $12,500) than buyers of converted units (12% under $12,500) but higher than renters in converted buildings. About 12 percent of all those who move from converted buildings are elderly households with incomes of less than $12,500. Eleven percent are black; one percent are Hispanic.

Conversions, when sufficiently numerous and concentrated, can have significant impacts not only on individual households but also on entire communities or neighborhoods. Reassessment of property following conversion leads to increased revenue from local property taxes. The degree of impact is a function of the particular jurisdiction's tax rates for various classes of property, its assessment practices, and provisions providing tax relief for special classes of property owners. When weighed against the total revenue from property taxes, however, the total impact of conversions to date on local property tax revenues has been very small. Less clear is the impact that conversions may have, in neighborhoods where concentrated, on demands for public services and, therefore, on the long term pattern of public expenditures. Available evidence, however, suggests that the demand for public services in these neighborhoods is basically unaffected by conversions.

It is useful to classify conversions as occurring in one of three types of neighborhood: central city nonrevitalizing, central city revitalizing, and suburban nonrevitalizing. In almost two-thirds of the central cities located in the 37 largest metropolitan areas, conversions are concentrated in nonrevitalizing neighborhoods characterized by above average median incomes, rent levels, and housing values, and by rental vacancy rates equal to or below the city average. One-third of the central cities had conversion activity in at least one revitalizing neighborhood. However, these same cities had a majority of their conversion activity in nonrevitalizing neighborhoods. Conversion has tended to lag behind rather than serve as a catalyst for other reinvestment in revitalizing areas. Conversion activity has had little impact on housing conditions in either type of central city neighborhood; however, as indicated earlier, some converting buildings in revitalizing neighborhoods do undergo major rehabilitation.

In neither type of central city neighborhood has conversion activity produced very much change in the socioeconomic characteristics of residents. In central city revitalizing neighborhoods, however, socioeconomic changes appear to result from the overall revitalization process, not necessarily from conversion; significant population changes had occurred in these neighborhoods prior to the onset of conversions. In central cities, pre and postconversion residents are similar in most respects.

However, postconversion residents are slightly less likely to be non-white (15% versus 21% before conversion), over age 65 (17% versus 23%), or retired (17% versus 23%), and more likely to be employed in professional or managerial jobs (63% versus 59%). Just over one-fourth (27%) of those moving to converted buildings in central cities lived in the same neighborhood prior to the move, 34 percent lived in another city neighborhood, 12 percent lived in one of the city's suburbs, and the balance (27%) came from another city.

Conversion has occurred in nonrevitalizing suburban locations in 27 of the 37 largest metropolitan areas; 19 such areas have higher proportions of their total conversion activity in suburbs than in their central cities. These are nearly always close-in, economically stable suburbs, whose residents are typically middle to upper-middle income whites. More of the conversions here involve garden and townhouse style rather than high-rise apartments. These conversions have had a negligible impact on housing quality, since most involve minor repairs to properties already in sound condition. Pre and postconversion residents of these buildings are similar, although postconversion households are slightly more likely to be non-white (17% versus 12% before conversion) and to hold professional or managerial positions (59% versus 52%) and less likely to earn incomes below $12,500 (16% versus 27%), to be retired (11% versus 21%), or to be over age 65 (13% versus 18%). Less than one-fourth of the postconversion residents of these buildings come from other housing in the same neighborhoods.

Federal government programs have so far played minor roles in relation to condominium and cooperative conversions. Programs of secondary mortgage market institutions (the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation) make it easier to finance and resell converted units which meet their criteria for purchase; thus, FNMA and FHLMC indirectly influence such practices as the proportion of presales, proportion of units occupied by owners, and condition of properties. A few state and local governments, many with financial support from the Federal government, have developed innovative programs intended to provide technical and financial assistance to groups seeking to convert their buildings, to subsidize low- and moderate-income households in converted buildings, or to assist households relocating after conversion.

State and local governments also have begun to respond to conversions with various types of regulatory legislation. Conversion-related regulations can be categorized as follows: those designed to protect tenants of converting buildings; those intended to protect buyers of converted units; those developed to preserve the supply of rental housing; and those aimed at preserving the supply of low- to moderate-income housing. To date, very few states and localities have passed the latter two types of legislation.

Just under one-half of the states have legislated protections for tenants of converting buildings; and, about one-half have laws protecting purchasers of both new and converted condominium units. States which have enacted tenant or buyer protection measures often contain metropolitan areas which are experiencing high levels of conversion.

At the local level, although just over one-third of all jurisdictions have had or still have conversion activity, fewer than one in five of those experiencing conversions has passed a regulatory ordinance. Larger jurisdictions and those with more conversions are more likely to adopt such legislation. About 6 percent of jurisdictions with past or present conversions have at one time or another adopted temporary moratoria halting all conversion activity.

Nearly all local regulatory ordinances provide some protections to tenants in converting buildings. Such ordinances typically require 90 to 180 days notice to tenants of a planned conversion. A few localities offer special protections to elderly and handicapped tenants, such as the right to extend their lease period.

Most ordinances protect condominium buyers by requiring code inspection, engineering reports and disclosure statements, or warranties on major structural features. A few ordinances seek to preserve the local rental stock, typically by restricting conversions when the rental vacancy rate drops below a certain percentage.

With regard to government action to affect the level of conversion activity, three of every four local chief executives prefer that neither the state nor Federal government act either to encourage or to discourage conversions. Over 60 percent also believe that local governments should avoid such actions. Of those who do see a role for government, a somewhat larger proportion prefers actions that would encourage rather than discourage conversions, such as programs to enable low- and moderate-income households to purchase their units or technical assistance programs for tenant-sponsored conversions.

Officials representing jurisdictions with heavy recent conversion activity are more likely than others to favor government regulatory intervention. About one-fifth of these would have any level of government act to discourage conversions. Similar proportions of this group would have local or state governments act to encourage conversions. Nevertheless, majorities of those local officials with the most conversion experience prefer that the state and Federal governments neither encourage nor discourage conversions.

Future changes in the volume, location, and character of conversions could, of course, alter the impacts that have been specified here -- both positive and negative -- on people, neighborhoods, and communities. For instance, if there is a homeownership market for units that are older or of lower quality than those currently being converted, a larger proportion of future conversions may involve rehabilitation and revitalization. This would result in more dramatic changes in the housing stock than has presently been observed. On the other hand, if such buildings contain higher proportions of elderly, minority, or low-income residents, the frequency with which conversion creates hardship for such households may also increase.

Chapter I
Issues Surrounding Conversion

Among the elderly in the Tampa area, the fear is commonplace. Several retired couples have been given 180 days to either buy their apartments or move. Some -- after talking with sales people -- will decide to use all or part of their savings in order to buy; others will decide that, even with a large down payment, the monthly cost of buying is just too much, or they will see no advantage to owning. They will begin to search the diminishing number of similar rental buildings in the area for a new apartment, hoping also to find a place that will not soon "go condo." The stress and anxiety associated with conversion is not something that these people bargained for when they settled in Florida's retirement communities.

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Now that their last child has gone off to college, the big home on its one acre lot in suburban Philadelphia suddenly seems to echo with their every footstep. They are an active couple, and they spend their vacation travelling. Evenings they are often in the city for dinner and the theater. The yard work that used to be a pleasure has lost some of its appeal. In short, these are two "empty nesters" who are ready for a change. Last month they put their house on the market; with the proceeds from its sale, they can easily afford a condominium in one of the luxury buildings near downtown that has been recently converted. There, someone else can handle the maintenance, and there is no lawn to mow. The pool and built-in shopping facilities are other attractions. An apartment in the city seems to fit well with the new pattern of their lives.

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For more than a year, the 30-year-old bank manager and his wife searched with growing frustration for a home they could afford. In California's rapidly inflating housing market, even the small ranch houses similar to those where they had grown up were completely beyond their financing reach. Finally, they bought instead a $70,000 two bedroom condominium apartment. It was, they felt, the only acceptable housing in their price range; and with inflation gaining on them, they felt they could not afford to wait. Like many others, they would prefer to have the kind of suburban home on a separate lot in which they were raised; but they have very reluctantly chosen a very different kind of housing -- and with it a different style of living. However grudgingly, they have traded the advantages and problems of the separate house for an amenity-rich, high-density environment that they may or may not, in time, find acceptable.

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When she took her first job as an associate in a Chicago law firm the young woman rented an apartment in a high-rise building overlooking Lake Michigan, just a short bus ride to her office in "the loop." A year later, to her surprise, the building went condo: unable to afford to buy and content as a renter, she moved to an older, smaller apartment building *in adjacent Lincoln Park -- a neighborhood that has recently seen a new influx of such middle-income people. There, two years later, she faced conversion again; her landlord had sold to a developer, who than spent several months restoring the once fashionable building to its former elegance. Reluctant to move again, the woman consulted friends who had purchased condominiums; they were enthusiastic, especially about the tax advantages of ownership and the rate at which condo units were gaining value. She decided to buy. Thus, she joined the growing number of young professional households -- including many single women -- whose first home purchase is a converted condominium.*

* * *

The conversion of rental housing to condominiums and cooperatives affects different kinds of people in different ways. These and other anecdotes suggest that conversion reflects certain changing social and market conditions and that it has certain social and market impacts. But, because it is a relatively new housing market phenomenon in the Nation, these conditions and impacts are not yet well understood.

The Controversy Over Evidence

The absence of solid information about the extent, causes and consequences of conversion has been a source of considerable controversy. As with most controversies, some debate has stemmed from differences in values, points of view, and basic policy preferences. In this controversy, however, maybe even more so than in others, the debate over evidence has been particularly prominent.

Some of the controversy surrounding conversion is caused by uncertainty about its extent and future growth. Have large proportions of the rental stock been converted in most metropolitan areas, or not? Will so many buildings convert that, by 1985, it will be impossible to find a rental apartment? Or, will rental units continue to be available?

Some controversy is associated with the effect of conversions on various groups of tenants. To what extent are elderly, minority, or low-income renters affected by conversions? How many tenants, especially the elderly, are being forced from units they have occupied for years? How many tenants are able to remain in their units, either as renters or buyers? When tenants do move from converted units, how are they affected? Can tenants who move find comparable units in the same areas at similar prices?

Some controversy arises concerning the concentration of conversion activity in particular areas. Do conversions typically occur in stable or in revitalizing neighborhoods? In central cities or their suburbs? Are they concentrated in particular regions of the country?

Some controversy centers on the reasons for conversion. Are conversions on the rise mainly because landlords can make large profits from selling buildings for conversion, or because operating rental property is unprofitable relative to other investments? Have converters created a demand for converted units by making many tenants feel they have no alternative but to buy, or do people want to buy because of the attractions of this housing and the financial advantages of homeownership?

To date, available information has been insufficient to address these questions in a systematic way. Therefore, in December 1979, the U.S. Congress authorized a nationwide study of conversion activity. This report presents the results of that study.

The Congressional Mandate

In the 1979 amendments to the Housing and Community Development Act of 1974, Congress directed the U.S. Department of Housing and Urban Development (HUD) to submit a report, within six months, addressing the conversion of rental housing to condominium and cooperative ownership. Congress asked for:

1. An estimate of the number of conversions which have occurred since 1970;
2. A projection of the number of conversions likely to occur from 1980 through 1985;
3. An assessment of the impact that conversions have had or are likely to have on the availability of housing for lower income persons;
4. An assessment of the extent to which conversions are concentrated in certain areas or types of areas of the country; and
5. An examination of the factors contributing to the increase in conversions.

In response to the Congressional directive, this report presents the results of a multi-faceted national study designed to address these points and other major issues regarding the nature, causes, and consequences of condominium and cooperative conversions.

The groundwork for presenting the study's findings is laid in this first chapter. Included are definitions of terms, a brief description of previous research in the area, and a delineation of the many issues associated with conversion.

Definitions 1/

The condominium and the cooperative are legal forms that permit multiple ownership of a multi-family building or complex. In the United States, each form is defined by the states, so that details of laws governing condominium and cooperative formation and operation vary from place to place.

Condominium: A housing unit in a multi-family building or complex owned by an individual, who also owns a partial interest in the common areas of the building or complex.

Although this form of ownership has a long history, particularly in Europe, condominiums became popular in the United States only in the 1960s. In a condominium, individuals purchase and obtain title to specific units, in which they generally live, but may also rent to others.

The unit owners simultaneously acquire a fractional interest in the entire property's common elements -- including halls, roofs, main walls, stairways and entryways, land, parking areas, and recreational or social facilities. This partial interest in the common elements and facilities is usually proportional to the dollar value of the individual unit purchased.

Each unit bears its own deed and mortgage, and individual unit owners are liable for any taxes levied against the unit. In addition to any mortgage payment, each unit owner generally pays a monthly maintenance fee to an association of all unit owners.

1/ Additional information may be found in Keith B. Romney, Condominium Development Guide (Boston: Warren, Gorham and Lamont, 1974); "Condominiums and Cooperatives," Housing and Development Reporter, 25:0011-0021,0111-0114 (Washington, D.C.: Bureau of National Affairs, 3-28-77 and 4-24-78); Patrick J. Rohan and Melvin A. Reskin, Condominium Law and Practice (New York; Mathew Bender, 1979); Patrick J. Rohan and Melvin A. Reskin, Cooperative Housing Law and Practice (New York: Mathew Bender, 1978); and in chapter X of this report.

The association board then contracts for the maintenance and operation of the individual units and common elements. Basic requirements for the bylaws governing the form and operation of condominium owners associations are provided in state laws.

Whether a condominium is newly built or converted from rental, it is established first by the public filing of a master deed or declaration, accompanied by a property description. Usually, an interim mortgage loan is obtained on the whole property to finance either the cost of new construction or the purchase and renovation of a rental property. As individual units are sold, the interim mortgage is repaid and ownership is transferred to the unit purchasers. If the financial institution providing individual unit mortgages plans to sell the mortgages to either the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), the regulations of these two organizations govern the sale of units. (A description of FHLMC and FNMA programs is contained in chapter X.)

Cooperative: A nonprofit housing corporation in which individual households own shares entitling them to live in a particular unit in a multi-family building or complex and to use the common areas and facilities of the building or complex.

In a cooperative, individuals do not buy their units but instead purchase stock in a corporation which owns the entire property. The corporation generally obtains a blanket mortgage for the property, and cooperative members contribute toward its repayment, as well as paying a proportional share of operating and maintenance expenses. Cooperative members are actively involved in the management of their housing, but they give an elected board of directors certain discretionary responsibilities. These include deciding who may join and live in the cooperative and enforcing the obligations of membership.

The owner of a condominium may default on the unit mortgage without directly affecting the legal rights and solvency of other owners. This is not the case in a cooperative. If a cooperative member fails to make payments toward the blanket mortgage, other members are responsible for his or her contribution. If a number of cooperative members fail to make payments toward the blanket mortgage, there is significant risk of foreclosure on the property, possibly causing solvent members to lose their units. Partly for this reason, financial institutions, outside of New York, have been reluctant to finance cooperatives. However, the record in New York, where most cooperatives exist, indicates that foreclosures have been extremely rare over the last 50 years.

A variation of the cooperative, generally known as a "limited" or "low equity" cooperative has been used primarily to provide housing for people of moderate or low income. Often the initial down payment for membership is very modest. The mortgage interest is subsidized by a governmental body, which then sets rules for the cooperative's operation. In a limited equity cooperative the price at which shareholders may resell their interest is determined by a formula. The intended result is to keep the resale price of cooperative ownership below the market value and within the reach of low- or moderate-income households.

Conversion: A change in the legal form of a multi-family rental property from single ownership by a landlord to multiple ownership.

In some cases, a building is converted by whoever has operated it as a rental; however, more often, a property is sold to a developer specializing in conversion. The developer then manages the entire process from legal declaration through unit sales. 2/

In a condominium, the individual unit owner ordinarily has the right to lease the unit to someone else. This means an investor could purchase a unit and rent it to anyone he or she chooses, within guidelines established by the condominium owners association. But in a cooperative, the decision to permit leasing is at the discretion of the cooperative board, unless superseded by state or local law. For example, a number of recent cooperative conversions in New York City have taken place under a "noneviction" plan that gives prior tenants the option to continue renting indefinitely after their building becomes a cooperative.

In this report, a property is not considered converted until both a declaration, master deed, or equivalent document has been recorded, and the first unit has been sold. 3/ This definition offers a precise means of documenting the volume of conversion activity. However, the estimates of converted units produced by this definition

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2/ In some places, non-residential buildings have been converted to condominiums or cooperatives. These are not considered conversions for the purpose of estimating numbers of units converted but are discussed, where relevant, in subsequent chapters.

3/ In some areas of the country, where it is difficult to determine when the first unit has been sold, or where regulations require a minimum number of sales to tenants, the operational definition of conversion is slightly different. Details are provided in chapter IV.

are somewhat larger than the number of units actually sold. As a hypothetical example, if only 100 units have sold in a building with 300 units on sale, 300 units are converted according to this study's definition. While these estimates are slightly larger than the actual number of units purchased, they are smaller than the number of units which have only been legally recorded as condominiums or cooperatives.

Previous Research

In the course of this study, a detailed search of existing data bases, professional organizations, and libraries identified hundreds of bibliographic sources which bear some relevance to conversions. The most pertinent of these are presented as an annotated bibliography in Appendix 1. Included in this body of literature are various studies of the conversion phenomenon.

Most previous studies have focused on a single state -- such as New York, Florida, Connecticut, and Hawaii -- or locality -- such as Chicago and Evanston, Illinois, San Francisco, Washington, D.C., Seattle, Pittsburgh, Baltimore, Kansas City, and Cambridge, Massachusetts. 4/ There is now a sizeable body of literature on the subject of the conversion of rental housing to condominiums and cooperatives which contributes to an understanding of the phenomenon in different types of housing markets. However, these reports and the many investigative news stories which have been done on conversion are limited in terms of geographical coverage, sample size, and the issues addressed.

The first Federal study dealing with condominiums and cooperatives was done in 1975 when the emphasis was primarily on new condominium developments that were being built in Sunbelt locations. 5/ At that time, the number of condominium and cooperative conversions was small compared to the number of conversions which has occurred during the second half of the decade.

Other, more recent reports on the conversion phenomenon, have also taken a national perspective, but have generally relied on local studies and secondary data sources.

4/ For a complete list of these studies, see the Annotated Bibliography in Appendix 1.

5/ U.S. Department of Housing and Urban Development, Condominium/Cooperative Study, 3 vols. (Washington: U.S. Government Printing Office, 1975).

The National Council of Senior Citizens, for example, undertook an overview study of condominium conversion -- and its causes and impacts -- with special focus on the elderly. Its report also looks at the various legal responses to conversion, primarily at the local level, and discusses policy options available to the Federal government. 6/

The Urban Consortium has completed a condominium conversion study which examines the issues of consumer protection, tenants' rights and displacement. It reviews the Uniform Condominium Act and various local controls which have been initated in response to conversions. Their report concludes with recommendations for Federal and local research and policy initiatives. 7/

Building upon this body of existing research, the present study represents the first effort to collect primary data at the national level with which to address the most significant and controversial issues related to conversion. The remainder of this chapter highlights these issues and chapter II describes the research approach employed to study them.

The Controversy Over Volume and Location

Two deceptively simple questions about conversions have been at issue: how many are there and where are they located? The data to answer these questions have generally been unavailable but, once collected, these data tell a great deal about the character of the conversion phenomenon.

The volume. To estimate the number of multi-family housing units converted from rental to multiple ownership is in some places quite easy, and in other places very difficult. In part, this is caused by differing local definitions of conversion, and in part, by varying and sometimes inadequate public recording practices. The result is that controversy often arises over the most basic of facts regarding conversions -- the volume of activity.

6/ Condominium Conversions: Options for Tenants and Rental Market Protection (Washington, D.C.: National Council of Senior Citizens, 1979).

7/ Jennifer Silver and Cathy Shreve, Public Technology Inc., Urban Consortium, Condominium Conversion Controls (Washington, D.C.: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 1979).

The most widely circulated national source for estimates of conversion activity in major metropolitan areas is the U.S. Housing Markets Report, published by Advance Mortgage Corporation & Citicorp Real Estate, Inc. Their figures are based on conversations with a small number of market experts in each metropolitan area. Other estimates, for these areas, based on a review of public records, are likely to differ. In states such as California, the problem of counting conversions is complicated by the multiple stage approval process. Another estimation problem is caused by developers who apply for conversion without intending to immediately offer the units for sale. Converters do this as a hedge against future restrictions on conversion activity, such as a local moratorium.

The result of such complexities is that conversion estimates published to date sometimes vary widely one from another. To remedy this, chapter IV presents national estimates of activity from 1970 through 1979 based on an extensive and systematic data collection effort.

The location. Aside from questions about volume, it is important to know exactly where conversions have been occurring. Location, of course, is closely related to the type and quality of building which is converted. Information on location, so far, has come from scattered studies and reports. They indicate that there are some metropolitan areas where conversions are taking place in prime neighborhoods within the corporate limits of large cities. Some are luxury or semi-luxury buildings.

> In Philadelphia, the Society Hill Towers, a high-rise building of 705 units, was converted. It is located on the site of the old Dock Street wholesale food markets and overlooks the Delaware River, an area considered to be very prestigious.
>
> In Cleveland's Shaker Square area, two older, luxury buildings that combine an aura of history and prestige with good location and architecture are being converted. Oriental carpeting in entrance halls, crystal sconces on the walls, hammered grillwork, copper mansard roofs, lofty gables, butlers' pantries, and the like, make such buildings attractive to buyers and profitable for converters.

In a few cities, some conversions have been of older, sometimes deteriorated rental buildings located in revitalizing neighborhoods.

> In Boston, for example, the majority of conversions have been in Beacon Hill and Back Bay, two areas with a substantial historical and architectural heritage. Sections of each neighborhood are revitalizing after a period during which they had become rather run-down,

> but still attractive to young people and students who sought less expensive rentals. Boston targeted portions of these areas for revitalization and invested in new public facilities before major conversion activity began. Most of the converted units are in small buildings formerly owned by small-scale landlords and converted by local developers who preserve the distinctive exterior features, yet modernize the interiors. Buyers are typically white, middle-income professionals, mostly singles or couples without children.

Not all conversions requiring major renovation are so successful, however.

> In a Midwestern city, for example, two developers who successfully built and sold new townhouses in an historic area near downtown, converted a vacant two-unit building. The initial price for the 100-year-old building was $10,000. After three years, many labor problems, two refinancings, and $140,000 in rehabilitation costs, the developers offered the units for sale -- at about $100,000 each. Overpriced relative to the market in that area, the units were unsold in late 1979. Faced with a sizable loss, the developers disclaim any further interest in converting old rental buildings.

The suburbs of many large metropolitan areas have also experienced conversions. As in cities, various reports suggest that some suburban conversions are luxury, high-rise buildings, while others involve relatively modest structures once rented to people with moderate incomes. Converted middle-income garden or townhouse style complexes often differ little in appearance from nearby properties of similar age that remain as rentals. If they differ, it is most often in the degree of soundproofing, space between and size of units, or presence of certain amenities. At the time of conversion, additional special features and cosmetic improvements may be added to increase market value and stimulate sales.

> In the San Antonio suburbs, most of the conversions have been of fairly ordinary gardenstyle apartments in nonprime locations. However, the relatively low rate of return to apartment owners in this overbuilt market gives owners an incentive to sell to converters. Units have been offered for sale at moderate prices, ranging from $20,000 to $60,000.

Chapters IV and VIII indicate exactly where conversions are occurring, whether primarily in the cities or suburbs, revitalizing or stable neighborhoods, luxury or nonluxury buildings.

The Controversy Over Causes

The conversion of rental housing units to condominiums and cooperatives has accompanied other major changes taking place in the Nation and in local housing markets. How these changes relate to conversions, however, is not yet well understood.

For example, some communities have experienced increasing numbers of households and decreasing household sizes; revitalizing older, inner-city neighborhoods; declining profitability of rental properties; landlord abandonment of rental apartment buildings; rising energy prices; and local government regulation of rent levels. Conversion seems to fit well with some of these changes. For instance, a growing proportion of those people financially able to purchase housing live in smaller households; this may increase the proportion that will purchase a condominium or cooperative rather than a single-family home. Similarly, the increase in single-person and childless middle- to upper-income households may contribute to increased demand for city living. But, exactly what contribution, if any, these changes make to the increasing number of rental conversions, has been the subject of debate.

The rental housing market. The rapid growth of conversion activity has coincided with an apparent decline in the profitability of building and operating multi-family rental housing. Reasons for this decline include higher operating and maintenance costs, higher land and construction costs for new apartments, changes in the Federal tax law, and increased government regulation -- including rent control in a few areas. Many see these changes contributing to a long-term shortage of affordable rental housing. Some observers have asked whether they will lead eventually to the end of unsubsidized rental housing in this country. 8/

Current conditions in the Nation's rental housing market present a paradox. Several factors -- declining vacancy rates, rapidly rising operating costs, little new construction -- seem to indicate an existing or emerging shortgage of rental housing. Other evidence --

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8/ See Roger Starr, "An End to Rental Housing," The Public Interest (Fall 1979), pp. 25-47; and Rental Housing: A National Problem that Needs Immediate Attention, Report to the Congress of the United States by the Comptroller General, U.S. General Accounting Office (November 8, 1979).

such as the tendency for rent levels to rise less rapidly than operating costs and less rapidly than other components of the cost of living -- seems to indicate that rentals may not be in short supply. 9/

In some cases, it is clear that rental buildings of declining profitability have been converted to condominiums or cooperatives.

> In Baltimore, the apparent unpopularity of living in high-rise buildings created above-average vacancy rates for some such properties and a consequent poor return on investment. As an alternative to continued operation at lower profit, landlords sold these high-rises for conversion.

The rates at which rental units are being removed from the stock, either by conversion to ownership (generally at the high end of the market) or by abandonment (generally at the low end), are cited by both those who see a rental housing shortage and those who deny it as evidence for their positions. The former group emphasizes that both conversion and abandonment reduce the rental stock, contributing to further tightening.

> In New York City, however, where there are an estimated 300,000 abandoned housing units, some observers argue that conversion may help to prevent future abandonment and to retain units in the housing stock.

Those who dispute the existence or extent of a rental housing shortage argue that current rates of conversion and abandonment are inconsistent with a genuine shortage. They believe scarcity would allow landlords to raise rents and thereby increase their investment returns; this, in turn, would reduce rates of conversion and abandonment. They claim that the failure of rent levels to keep pace with operating costs indicates a surplus. Finally, those who question the existence of a rental shortage generally view the current lack of new rental construction as a temporary market response to the continuing effects of overbuilding during the early 1970s and the relatively increased attractiveness of other uses of capital.

9/ In fact, renters may actually have increased their housing consumption during the middle 1970s. If so, the trend is inconsistent with the presence of a rental housing shortage. John F. Kain; Herman B. Lenard; and Karl E. Case; Condominium Conversion in Massachusetts: An Evaluation of Its Benefits and Costs (Unpublished paper, April 1980).

On the other side, those who see a serious shortage of rental housing emerging claim that the lack of new construction signals a secular shift in the economics of unsubsidized rental construction and operation due to the combined effects of inflation, the tax benefits of ownership for higher income households, and the emergence of the conversion option. They claim that demand is, in some cases, insufficient to sustain higher rents because renters' incomes are not, on the average, high enough to support rent increases needed to maintain costs. They believe also that interferences with the market in the form of government regulation, tax policies that favor ownership, and organized tenant resistance make it impossible for some landlords to raise rents fast enough to meet their costs.

Debate about whether or not there is a rental housing shortage may result, in part, because the two sides focus on the balance of rental supply and demand at different income levels or in different local housing submarkets. For instance, it may be that surpluses at higher rent levels and shortages of moderate-income rentals exist side by side in many markets.

One's view of condominium and cooperative conversion is likely to be partially a function of one's position in the debate concerning the present and future state of the Nation's rental market. These issues are discussed further in chapter V.

Inflation, Energy, and Ownership Demand. In the last decade, owner-occupied housing has attracted an increasing share of private investment. More and more people are purchasing housing not simply as shelter, but also for speculative purposes or for protection of capital from inflationary impacts. For these two reasons, housing prices have escalated significantly. 10/

An inflated housing market makes it more difficult for young people of modest income and limited savings to buy homes. Many will continue to rent but others may find that newly constructed or converted condominiums provide a desirable alternative to the traditional single-family home. Since converted rental units generally cost less to deliver than comparable new units, and are cheaper per square foot than single-family homes, they may offer the best opportunity for homeownership to small households with moderate incomes.

10/ George Sternlieb and James W. Hughes, "Condominium Conversion Profiles: Governmental Policy", Journal of The American Real Estate and Urban Economics Association (Winter, 1975), pp. 61-80.

> In Houston, for example, many conversions are occurring in rental townhouse complexes close to downtown. The units are very competitive with new townhouses and slightly lower priced than single-family houses located farther from the city's business districts. Advertisements for the converted condominiums are aimed at young households just entering the market.

If converted condominiums and cooperatives replace the construction of some single-family homes, it is possible that more efficient land and energy use could result. Some consider this a benefit of converted units, given the country's concern with energy conservation and reducing wasteful land use patterns.

> In St. Petersburg, Florida, a strong selling point for converted condominiums is their energy efficiency relative to single-family houses.

The conversion of rental units must be understood as occurring within the context of other major changes in the Nation's housing market. Chapter V will examine the extent to which condominium and cooperative conversions are a result of, or contribute to, these changes.

The Controversy Over Impacts

Much of the controversy over condominium and cooperative conversions -- that is, whether they are beneficial or harmful -- hinges on the following questions of fact:

1. Who buys and lives in converted units, and what are their experiences?
2. Who moves from properties being converted, and what are their experiences?
3. What are the housing market, neighborhood, and fiscal impacts of conversion?

Since virtually all previous studies of condominium and cooperative conversions which were intended to address these factual questions have been done in a single jurisdiction or neighborhood, realistic answers on a national level have not been possible. The following illustrations are meant to prepare the way for a presentation of national trends and findings, contained in part III of this report.

The Experiences of Those Who Buy and Live in Converted Units. The kinds of people who buy converted condominiums and cooperatives will vary somewhat from place to place.

In midtown luxury buildings, some buyers are probably young professionals and others older "empty nesters" whose children have left home. Converted suburban units are more likely to attract young families with a few children, particularly if they are garden or townhouse complexes. In retirement and resort communities, such as Phoenix and St. Petersburg, the elderly and "snow birds" from colder climates are known to purchase many converted units.

The proportion of tenants who purchase units when their buildings are converted is likely to vary greatly and to depend on several factors.

> In Montgomery County, Maryland, a luxurious high-rise building was converted to condominiums but few tenants purchased. Many former residents claimed they were dissatisfied with the renovation job done by the developer and refused to buy.

Purchases by former tenants may also depend on the sales pitch used by developers. 11/

> In the Cleveland area, for example, one converter who specializes in luxury buildings and consistently sells about 80 percent of the units to current tenants emphasizes the importance of his low-key approach. He provides all tenants with a weekly newsletter containing details on each sale as well as other news related to the conversion process. The newsletter's objectives are to squelch rumors and to remind tenants of purchase options and approaching deadlines. No sales force is used, nor are direct approaches made to tenants. During the marketing period, the converter maintains an office in the building, and simply waits for tenants to make purchase inquiries. Outside prospects, most of whom are small investors, are solicited by telephone.
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> In one Cleveland suburb, however, a firm which converted a luxury high-rise used pressure sales tactics that some tenants found offensive. A large contingent of sales personnel moved into the building's vacant units and saturated the remaining renters with sales pitches, written advertising, and offers of

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11/ The following two examples are adapted from Frank Kuzuik, "Condomillionaires", Cleveland Magazine (V8, n6, June 1979), pp. 82-89.

> discounts. One tenant was called out of a business meeting to take an "emergency" phone call that turned out to be from the converter's salesman, whose opening line was "Bill, do you realize that you only have until midnight to purchase your condominium and save $750?" Such techniques are designed to reduce the time, and therefore the cost, of selling out the converting building.

Even when a more aggressive sales pitch is used, sales may be very slow if the demand for condominium ownership is weak.

> In Milwaukee, Wisconsin, for example, an intensive marketing approach used by an out-of-town converter was relatively unsuccessful in stimulating sales of units in a high-rise luxury building in the downtown area. According to Milwaukee bankers involved in financing the conversion, unit purchases would have been slow in coming, no matter what type of sales pitch, because people were neither very open to this form of ownership nor especially interested in living in the downtown area.

On the other hand, in areas where demand for condominium or cooperative ownership is strong, prospective buyers hardly need a strong sales pitch.

> In Washington, D.C., a developer decided to hold a lottery in order to call prospective buyers from the long list of nontenants who wished to buy.

Converted condominiums are likely to be very attractive to some investors, particularly to professionals, who are interested in a tax shelter, and to small-scale investment syndicates. Absentee ownership in buildings with unit mortgages bought by FHLMC is initially limited to 20 percent of units. But in buildings without such restrictions, investor ownership can be higher.

> In Dade County, Florida, for example, which includes Miami, some buildings are 30 to 50 percent investor-owned. Among these investors are owners from both South America and Canada who shelter their income in Florida.

> In Hawaii, investors own a large share of the units converted to condominiums. The units are rented for most of the year to tourists and other visitors to the Islands.

Investor-owned units can be rented, but there are instances where children have bought a unit as a tax shelter and then allowed their parents to live there rent-free or at a nominal price. Some developers are known to set aside a certain number of investor-owned units for rental to elderly and handicapped households, and others have made efforts to match tenants who cannot or do not wish to buy with an investor who subsequently continues to rent the unit to the tenants.

Experiences of those purchasing converted units will obviously vary. Tenants who buy units when their buildings convert sometimes have to undergo a disruptive renovation process. At other times, the work done by a converter is handled rapidly and efficiently with few complaints from tenants who buy.

After purchase, problems sometimes arise when a developer will not relinquish control to the owners association or when conflicts arise between owners and those who rent from investors.

> In Denver, for example, a condominium association was illegally controlled by the developer for its initial three years. Control was finally given to the association, but the developer continued to withhold legal records and financial information from the association and failed to make promised repairs and improvements. In addition, arguments were frequent between owner-occupants and those renting from investors on issues such as individual utility conservation.

A complaint sometimes made against developers is that the reserve fund for major repairs is not sufficient.

> In New York City, for example, this is usually a significant issue. During the process of converting their buildings to cooperatives, tenants often make the size of the reserve fund a principal negotiating point with the landlord.

Converted buildings may also be susceptible to problems after they are turned over to the owners association.

> In San Francisco, for example, a firm which manages both new and converted condominiums reports more problems with conversions caused by lack of budget experience, inadequate cash reserves, and structural deficiencies in older buildings. In addition, many tenants who buy expect to receive free unit maintenance and other services.

Factionalism and personality conflicts may plague some associations, especially when debate arises on the need for special assessments. Problems can also occur between absentee investor-owners and owner-occupants or between owner-occupants and renters. Absentee owners may not always follow or inform their tenants of the covenants, conditions, and restrictions governing occupancy. Although not central to this report, these issues are examined in chapter IX.

The Experiences of Those Who move from Properties Being Converted. Some people who move from converted units do so because they cannot afford to buy. The monthly cost of buying a condominium or shares in a cooperative is likely to be, in many cases, equal to or higher than the rent being charged; when the expense is considerably more, tenants who cannot afford a higher expenditure for housing may leave.

> In San Mateo, California, for example, a 229-unit building had deteriorated because low rent levels could not meet rising maintenance costs. In 1977, the building was converted to condominiums, and the one to three bedroom units were sold at prices ranging from $49,000 to $145,000. The wide gap between existing rents and the anticipated monthly payments meant few tenants could purchase.

Higher costs may not be the only reason for moving. Some elderly persons may not wish to be burdened with a mortgage, with membership in a condominium owners or cooperative association, or with the responsibilities of homeownership. Tenants may not buy because they are dissatisfied with the condition of the building and do not believe conversion will correct its shortcomings. Others may not buy because they want to be able to move easily.

> In Cambridge, Massachusetts, for example, over half of the movers from recently converted buildings were over age 62.

> In Boulder, Colorado, some cheaply constructed buildings once rented to students at the University of Colorado have been converted to condominiums. The student population either cannot afford to buy or does not wish to purchase units for the short time they will be in the city.

Those who move from converted buildings may encounter various problems. People who leave a converted building may discover, shortly after relocating, that their new residence is going to be converted. Elderly tenants who relocate may be affected by the inconvenience of moving, which is aggravated by age-related infirmities. The loss of social ties and access to familiar services is another problem some elderly persons may experience.

Some movers from converted building will pay higher rents for new units or will be unable to find comparable housing in the same neighborhoods.

> In Washington, D.C., for example, tenants who moved in 1979 typically paid higher rents, but their new units were slightly larger. Most were able to find units in the same general areas of the city; but locating the new unit took an average of two months. 12/

Other tenants moving from converted units may have more positive experiences. Some developers offer relocation payments to tenants who move or supplement payments required by local or state laws.

> In Hartford, for example, converters make considerable efforts to help relocate low-income tenants from converted buildings. It is estimated that the program costs $1,000 per relocated household.

> In Los Angeles, the city has designed a tenant relocation program which it encourages converters to use.

Housing Market Impacts. One argument made against condominium and cooperative conversions is that they reduce the supply of rental housing. This situation, it is claimed, is aggravated by the current lack of new multi-family construction and other market factors which make owning and operating rental property less profitable than other investments.

The proportion of converted rental stock varies from one metropolitan area to another. The proportion also varies within a single metropolitan area by type of building, neighborhood, or particular jurisdiction.

> In Boulder, Colorado, for example, over 20 percent of the rental stock has been converted. Conversions have been so extensive that, in late 1979, it was estimated that most of the units suitable for conversion had been removed from the rental supply through this process.

12/ Condominium and Cooperative Conversions in the District of Columbia (Washington, D.C.: Raymond, Parish and Pine, Inc., Development Economic Group, 1979).

In some areas of concentrated conversion activity, rental vacancy rates may be very low. Low vacancy rates may lead, in turn, to higher rents.

> In Evanston, Illinois, for example, 14 percent of the rental stock has been converted and local officials estimated the 1979 rental vacancy rate at 1 percent. Officials noted, too, that rents were were rising rapidly.

Despite these examples, the impact of conversions on the rental housing market is difficult to determine. First, the reduction of rental supply due to conversion is mitigated somewhat when converted units are bought by investors who continue to rent them. Second, if converted units are purchased by those households who otherwise would have continued renting, there may be a reduction in future demand for rental housing, because these tenants have left the rental market. In such circumstances, conversions have little effect on vacancy rates or rent levels. On the other hand, if buyers of converted units are primarily those households who previously owned, conversions will have more of an effect on the rental market.

It is possible that, in a given locality, a 10 percent reduction in multi-family rental stock caused by conversion might be offset by a 10 percent reduction in demand attributable to shifting preferences. However, it is also possible that the demand for rental units in a locality would remain steady or rise. If few new rental units are constructed during this period, the result could be a very tight rental market, higher rents, and pressure on lower income households to move elsewhere. Careful analysis, as presented in chapter VII, is required to determine the likelihood of each scenario.

Neighborhood Impacts. There are examples of condominium and cooperative conversions occurring in both neighborhoods which are relatively stable and those which are experiencing revitalization.

> In St. Paul, rehabilitation of single family houses in the Historic Hill area began in the late 1960s. Rental housing began converting to condominiums in 1971, but did not intensify until the late 1970s.

> In Columbus and Cleveland, Ohio, conversion has been a late, very small feature of reinvestment that began in the 1960s and early 1970s, possibly because most housing in these neighborhoods is in one and two-unit structures. The role of conversions in neighborhood revitalization is not clear and may vary from city to city.

Conversion of some buildings may lead to changes in the composition of both buildings and neighborhoods.

> In an affluent northern Virginia suburb, a large moderate-income rental complex was converted after receiving substantial rehabilitation. Although the units were modestly priced, they were nevertheless beyond the reach of virtually all tenants. The middle-income families who purchased subsequently enjoyed substantial appreciation in the market values of their units as the area grew in attractiveness due to this and other investment.

In other instances, very high proportions of current tenants purchase units in the converting buildings, so virtually no change in population results. Chapter VIII contains an analysis of the types of neighborhoods in which conversions occur and the impacts that they have on those neighborhoods.

Fiscal Impacts. Another aspect of condominium and cooperative conversions is the effect they have on a local government's fiscal condition. Changing a multi-family building from single to multiple ownership may raise its assessed value. The local government can, in turn, realize added property tax revenues from such increases. It is possible, too, that differences in the demographic characteristics or behavior of new residents in converted units may affect the demand for public services and have some impact on local government spending patterns. However, the evidence on this is not clear.

> In Chicago and Brookline, for example, two recent studies showed assessment increases of about 30 percent. In the Brookline study, an attempt was made to determine if conversions had an effect on service demand and cost. No definite conclusions were reached.

While condominium conversions can yield higher local tax revenues, there is one interesting case in which conversion led ultimately to a significant decline in local tax receipts.

> Just outside the city of Pittsburgh lies a hilltop, white-collar community of 500 converted garden style and townhouse condominiums. Known as Pennsbury Village, this complex, which was converted in 1974, has approximately 1,000 residents. Units in the Village were priced at between $20,000 and $25,000 when offered for sale in 1974. In 1976, this 48 acre complex was granted permission to break away from its mother township to become a separate municipality.

> It is believed to be the Nation's first borough composed solely of condominiums. The incorporation removed about 10 percent of the tax revenues of Robinson Township which unsuccessfully contested the secession. The stimulus for the secession effort was dissatisfaction with municipal services provided by the township, especially an expensive tie-in to a township-wide sewer system.

The impacts that conversions have on local tax revenues are systematically examined in chapter VIII.

The Controversy Over Regulation

Local governments and tenant groups have responded to conversion activity in various ways. These responses, in turn, affect the incidence and character of conversion.

In some jurisdictions, organized opposition to conversion activity has lead to imposition of a temporary moratorium. Sometimes, local government uses the moratorium period to study conversion in their locality and determine a policy for dealing with the phenomenon.

> In Philadelphia, the city council passed an ordinance in 1979 which prohibited all conversion activity for 18 months. Passage of the measure was greatly influenced by a coalition of tenants, local developers, and others concerned with outside involvement in the city's housing market.
>
> In Seattle, a 120-day moratorium on conversions was imposed in July 1978 partially at the urging of the Seattle Tenants Union and the Seattle Displacement Coalition. These same groups also were involved in subsequent passage of the city's ordinance regulating conversion activity.

Both local jurisdictions and states have passed regulatory legislation, of which some provides protection for purchasers of converted units and some which safeguards tenants living in buildings being converted.

Chapters XI and XII discuss the various approaches used by governments to regulate conversion activity. Chapter X presents existing Federal, state, and local programs that relate to conversion. The perceptions and policy preferences of local officials across the Nation regarding condominium and cooperative conversions are also presented in chapter XII.

* * *

This chapter has highlighted some of the issues surrounding the conversion of multi-family rental housing to condominiums or cooperatives. These issues are numerous, complex, and controversial; to date, there has been insufficient reliable information to inform the debate which has surrounded the phenomenon. The examples cited in this chapter illustrate particular cases or sides of issues, yet many of the basic facts regarding condominium and cooperative conversions have yet to be established. Chapters IV through XII present the findings of HUD's national study designed to establish the facts.

To recap. The key issues are as follows:

> Volume. How large and widespread is the phenomenon of rental housing conversion? How large and widespread will conversion activity become between 1980 and 1985? (See chapters IV and VII.)
>
> Process. How are most conversions accomplished and financed? What roles do various actors play in the conversion process and what market and other factors influence their behavior? How does the conversion process vary among different buildings and different cities? (See chapter III.)
>
> Causes. How do housing market conditions, financial incentives, and other factors influence the volume of conversion activity? (See chapter V.)
>
> Demand. Who wants to own and live in converted condominiums or cooperatives? Why do others decide not to buy? (See chapter VI.)
>
> Impacts. What are the effects of conversion on renters and the rental market? What are the effects of conversion activity on the buildings, neighborhoods, and communities where it occurs? (See chapters VII, VIII, and IX.)
>
> Responses. What have been the responses of tenants to conversion? (See chapter IX.) What have been the responses of Federal, state, and local governments to conversion activity? (See chapters X, XI, and XII.)

Chapter II
The Study Approach

The recency of the conversion phenomenon means that there is neither a body of research, nor any model, for studying its incidence, causes, or impacts at the national level. Specifically, there is no generally accepted definition of conversions and no national data base with which to estimate their numbers and geographic distribution. In addition, no previous efforts have been made at the national level to relate the occurrence of conversions to other housing market phenomena. Consequently, although some press reports have provided dramatic examples of conversions' impacts on individual households and local studies have provided some information on a limited number of municipalities, there has been little methodological guidance for a study of the scope undertaken here.

Given these circumstances, the research challenge has been to develop and execute an original methodology that provides answers to the many questions that are asked concerning conversion, and to do so within the six months allotted by Congress.

The research approach adopted to meet this challenge was to begin by collecting basic data on buildings converted, the number of units they contained, and their locations. In an effort to maximize both breadth and depth, data were collected on a national sample for issues that required such coverage and in larger metropolitan areas only for those questions requiring an indepth metropolitan-level focus. For instance, analyses of the conversion process and the causes of conversion rely on detailed information for the nation's 37 largest metropolitan areas. Analysis of conversion impacts is based primarily on intensive data collection in 12 SMSAs with high levels of conversion activity. Greatest attention has been paid to the questions raised by the Congress; however, other major issues have been addressed as time and resources have allowed. Thus, some questions are answered in considerable detail, whereas others are addressed only in an exploratory fashion.

The remainder of this chapter provides a non-technical overview of methods and sources, linking these with specific research issues and questions. Appendix 2 of this report provides a thorough technical explanation of each of the methods reviewed here. The data sources and methodologies can be divided into four categories:

(1) An in-person survey of current and former households in building units which have been or are in the process of being converted;

(2) Interviews with federal, state, and local officials;

(3) Field visits by HUD staff to 37 SMSAs during which about 400 personal interviews were held with local experts from both the private and public sectors; and

(4) Existing data sources, including the Annual Housing Survey, other Census data, legal documents, HUD and other Federal program-related data, and existing research on conversions.

Table II-1 is a matrix of major issues (and the chapters of this report in which they are addressed) by type and importance of information source. The remaining sections of this chapter describe in more detail each of these information sources and issues relating to their use.

In-Person Survey of Households

Several questions in this study could be adequately addressed only by conducting a survey of those households directly affected by conversion. Questions were posed to these households in order to ascertain: What kinds of people buy converted condominiums or cooperatives? Why do they buy? What is their overall level of satisfaction with their purchase? What proportion of rental tenants does not buy? And, why do they not buy? Do they have difficulty in finding alternative housing when they move? What costs are involved? How many people buy but do not live in the units?

As indicated in chapter I, several local surveys of households affected by conversion have been conducted, but no broader-based survey exists to date. 1/ Therefore, for this study, an in-person survey of households

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1/ In various localities and states, formal studies have been conducted to determine the incidence and impacts of conversions. Most of these investigations have one or more of the following characteristics: (1) they generally focus on a limited geographic area, usually a single jurisdiction or neighborhood; (2) many studies rely on a small sample of those affected by conversion, or they contain limited amounts of data and hard evidence; and (3) they often examine questions which relate to the interests of the particular group sponsoring or conducting the study, leaving unanswered many other questions about conversion. The following are typical of such state and local studies:

> In Evanston, Illinois, a 1978 study conducted for the city's Human Relations Commission surveyed 51 tenants in buildings being converted and 326 owners in new or converted condominiums. The study compared the characteristics of tenants renting in buildings with those purchasing units in such buildings. It also attempted to estimate the proportion of tenants likely to purchase, satisfaction levels of purchasers, and the reasons why some tenants did not purchase.

TABLE II-1
Information Sources

Question/Issue	In-Person Survey of Households	Telephone Surveys of Local Officials	Field Visits to 37 SMSA's	Existing Data Research
Description of Conversion Process (Chapter 3)			**X**	X
Estimates of Past and Future Conversion Activity (Chapter 4)		**X**	**X**	X
Causes of Conversions:				
— Housing Supply and Financial Conditions (Chapter 5)			X	**X**
— Demand-Related Factors (Chapter 6)	**X**		X	X
Impacts of Conversions on:				
— Rental Supply (Chapter 5)			X	**X**
— Local Tax Revenues (Chapter 7)			**X**	X
— Housing Stock and Neighborhoods (Chapter 7)		**X**	**X**	X
— Households in Converted Buildings (Chapter 7)	**X**		X	X
Public Sector Response:				
— Views of Local Officials (Chapter 8)		**X**		
— Federal, State, and Local Regulations (Chapter 9)			**X**	**X**
— HUD Programs (Appendix)				**X**

Note:

X Primary Information Source

X Secondary Information Source

was undertaken during January 1980 in 12 SMSAs with high levels of conversion activity between 1977 and 1979, the period in which most of the decade's conversions occurred. Comprehensive lists of all properties converted in the 1977-79 period were obtained from the following SMSAs in September 1979;

Boston
Chicago
Denver-Boulder
Houston
Los Angeles-Long Beach
Miami
Minneapolis-St. Paul
New York
San Francisco-Oakland
Seattle-Everett
Tampa-St. Petersburg
Washington, D.C.

From those lists, a sampling frame was developed which yielded an equal probability sample of 280 converted buildings in the 12 SMSAs. 2/

In San Francisco, a study on condominium conversions was done jointly by the Department of City Planning and members of the local real estate industry. Postal surveys were conducted of 266 condominium owners and 304 tenants in buildings being converted. Like the Evanston research, this study investigated the differences between renters and purchasers.

In New York State, the Temporary Commission on Rental Housing issued, as part of its mandate, a volume on the conversion of residential property to condominium or cooperative status in light of current and proposed state statutes. Included as part of the volume are sections on: the legal mechanics of the conversion process; the authority and role of the N.Y. State Attorney General's Office; statistical analysis of residential conversion plans; and a detailed analysis of tenants rights under various regulations within the state.

In Brookline, Massachusetts, a study of conversions focused on households living in rent controlled apartments and households who purchased converted units. The report looks at, among other things, the reasons why people purchase condominiums, the nature and impacts of the conversion process on existing tenants, and the potential impact of conversion on tenants and on Brookline's tax revenues.

2/ Subsequently, more reliable conversion figures were obtained which indicated that, while the original 12 SMSAs had very high levels of activity, they did not constitute those with the highest amount of activity. The 12 highest-activity SMSAs include Cleveland and Philadelphia but exclude Seattle-Everett and Tampa-St. Petersburg. In number of conversions, the latter two are ranked 13th and 14th, respectively.

The sample is representative of households affected by conversions in the 12 SMSAs, which represent 60 percent of all conversion activity in the country.

Two groups of households were surveyed: (1) those currently residing in buildings which have been converted or are in the process of converting (at least one, but not all sales must have been completed between January 1, 1977 and December 31, 1979); and (2) those households who moved from converted buildings as a result of conversion.

Current Residents. A total of 861 households within the first group (current residents) were interviewed. These households comprise four distinct groups:

(1) Tenant Buyers: current residents who rented a unit prior to conversion and purchased a unit at the time of conversion;

(2) Continuing Renters: current residents who rented a unit prior to conversion and have continued renting in the building after conversions;

(3) Outside Buyers: current residents who purchased and moved into a unit after the building was converted, and

(4) New Renters: current residents who moved into a unit after conversion but who rent rather than own.

A comprehensive description of sampling issues and the various steps involved in the field survey operations is presented in Appendix 2.

Former Residents. A representative sample of 301 former resident households was also interviewed. This includes households who had resided in buildings converted during 1978 or 1979 but who had moved out of the buildings before January 1980, when interviews were conducted. 3/ The purpose of this survey was to ask former residents about their reasons for not purchasing converted units and their experiences in finding other housing after they moved from the converted building.

Locating and interviewing former residents is a costly and time consuming task. The first step in the process, which proved to be particularly difficult, was to obtain the names of former tenants who had resided in a pre-selected sample of units. These names were

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3/ A sub-sample of units in buildings was taken from the 1977-79 sample in order to interview former residents whose experiences in locating other housing reflected more current rental market conditions.

obtained from previous landlords, various directories, neighbors, and real estate or management companies which had been involved in the conversion or which managed the building for the condominium owners association. Once the names were obtained, households were traced to their current addresses using numerous sources, including: building managers; current occupants of the converted building; standard and criss-cross telephone directories; city directories; and the Post Office. A detailed description of the sampling and tracking procedure is provided in Appendix 2.

Interviews with Local, State and Federal Officials

Local, state, and Federal officials served as another source of information on a variety of issues. 4/ Two sets of interviews were conducted at the local level. The first was a national telephone survey of mayors, county executives, or their designees, conducted in December 1979 and January 1980, to elicit their views on the causes and impacts of conversions on their jurisdictions. A second set of telephone interviews was conducted with local planning and housing officials in February 1980 to assess their views about the impacts of conversions on individual neighborhoods in their jurisdictions. In addition, Federal and state departments and agencies were contacted at various times throughout the study for information on legislation, regulations and programs.

Interviews with Mayors and County Executives. Mayors, county executives, or their delegates were asked a variety of questions tapping their perceptions of the salience of the conversion issue in their jurisdictions, its causes, and both positive and negative impacts. They were also asked a series of questions on the current and anticipated local response, if any, to conversion activity as well as their positions on regulatory issues. Calls were made to 347 mayors and 106 county executives.

The types of communities covered in the survey include the following:

4/ As part of the planning for this research, a conference coordinated by the Urban Consortium, a national research organization for the Nation's largest cities and urban counties, was attended by HUD research staff and officials from Atlanta, Boston, Chicago, San Francisco, Seattle, and Washington, D.C. A second conference, coordinated by the Joint Center for Urban Studies of Harvard University and the Massachusetts Institute of Technology, was held to discuss research design issues and study approaches. Participants included HUD research staff and several scholars from universities and consulting firms.

(1) The central cities of the 37 largest SMSAs, those SMSAs in which most of the conversion activity had taken place. The 48 central cities associated with the SMSAs were included in the sample with certainty;

(2) The remaining jurisdictions, i.e., cities, counties, and New England towns, located within the 37 largest SMSAs;

(3) All other cities with a 1970 population of 25,000 or more; and

(4) The remaining jurisdictions, i.e., counties and New England towns, associated with these cities of 25,000 or more in stratum (3). 5/

These four groups comprise about 77 percent of the Nation's 1970 population. A more detailed description of sampling issues is provided in Appendix 2.

Local Planning Officials. A second round of telephone interviews was conducted in February, 1980 with local planning officials in the 18 central cities of the 12 SMSAs with high levels of conversion activity.

These interviews were to elicit information on neighborhood characteristics and the impact of conversions on these neighborhoods, since 1970 Census information was considered too dated to provide an accurate picture of current neighborhood characteristics. 6/

5/ The telephone survey was also used to estimate the volume of conversions outside the 37 largest SMSA, complementing data obtained on the 37 largest SMSAs through field visits. Therefore, for sample sites outside the 37 SMSAs, (that is, strata (3) and (4)) two interviews were conducted, one with the local chief executive and another with an official knowledgeable about the volume of activity, such as an assessor or planner. These latter interviews focused on more specific questions concerning current and projected (1980 to 1985) conversion activity.

6/ Prior to contacting these officials, census tract numbers were obtained for locations of all converted buildings in each of the central cities. These were used as a basis of discussions of neighborhood characteristics and impacts.

The officials were also asked to discuss any neighborhood changes which had occurred as a result of conversion activity. Based on these interviews and other available data, demographic and housing profiles were developed for those neighborhoods containing conversion activity. These profiles serve as a data source for the analysis of conversion-related neighborhood and housing issues presented in chapter VIII.

Federal and State Officials. State and Federal agencies were contacted to obtain information on conversion-related legislation, regulations, and programs. For example, officials from the Veterans Administration and the Farmers Home Administration were interviewed concerning their agencies' programs pertaining to condominiums and cooperatives, and from the Securities and Exchange Commission concerning their regulations regarding the two forms of homeownership. Issues related to the financing of condominiums were discussed with officials of the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, and the Federal National Mortgage Association. In addition, various representatives of state government, such as attorney general's offices, legislative research office, and real estate departments, were contacted to discuss recent developments concerning conversion. 7/

Staff Visits to 37 SMSAs

To obtain information not available through other means, HUD staff conducted a two-phased field study. The first phase took place in September 1979, when staff members visited the 12 high-activity SMSAs in which the household survey was eventually conducted. During these visits, comprehensive lists and addresses of buildings which had been, or were in the process of being converted between 1977 and 1979, were compiled. These lists comprised the universe from which the sample of converted buildings was drawn. In compiling these lists, a large number of sources were used. Because of the variation across SMSAs in the regulations affecting the conversion process, the types of sources differed considerably across jurisdictions. In New York, for example, the information is centralized in the New York State Attorney General's Office. Information on converted

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7/ Many members of national organizations in the private sector were also interviewed. These groups included those backing real estate and banking concerns and those representing neighborhood and tenants' interests. During this first field trip, staff members also held preliminary interviews with selected individuals, both in the private and public sector, and obtained information on state laws and local ordinances which had been enacted or were being considered for passage.

properties is also centrally located in Florida, but in the State Division of Land Sales and Condominiums. In most other areas, however, the information is not centrally maintained, and may not be accessible at all from public sources. In Chicago, where the greatest number of conversions have occurred, a local title company is considered to have reliable figures but even it does not have an easily accessible list of building names and addresses. These were obtained from a private real estate consulting firm and cross-checked with other lists obtained from other sources. For other SMSAs, lists of properties were often obtained from more than one source, including Offices of the Recorder of Deeds; county or city assessors; city, county, or regional planning officials; developers; and various housing market experts. These procedures are discussed in Appendix 2.

The second stage of the field study took place in November, 1979, during which staff members conducted intensive interviews in the Nation's 37 largest metropolitan areas (each of which had an estimated population of one million or more persons as of 1977, the latest date for which these population figures are available). See figure II-1 for the names of those SMSAs which were visited. Discussions were held with over 400 individuals either involved in the conversion process or having specific knowledge about this phenomenon. Interviewees included, among others, real estate brokers and lawyers, tenant groups, bankers, developers, landlords, researchers, local government officials, and housing market specialists. These semi-structured interviews tapped a variety of local opinions about the factors driving conversions in their housing markets, the various impacts of conversions, and local policy preferences related to the issue of rental conversion. Some quantitative and a great deal of qualitative information were gleaned from these interviews, which are used to illustrate or highlight particular findings.

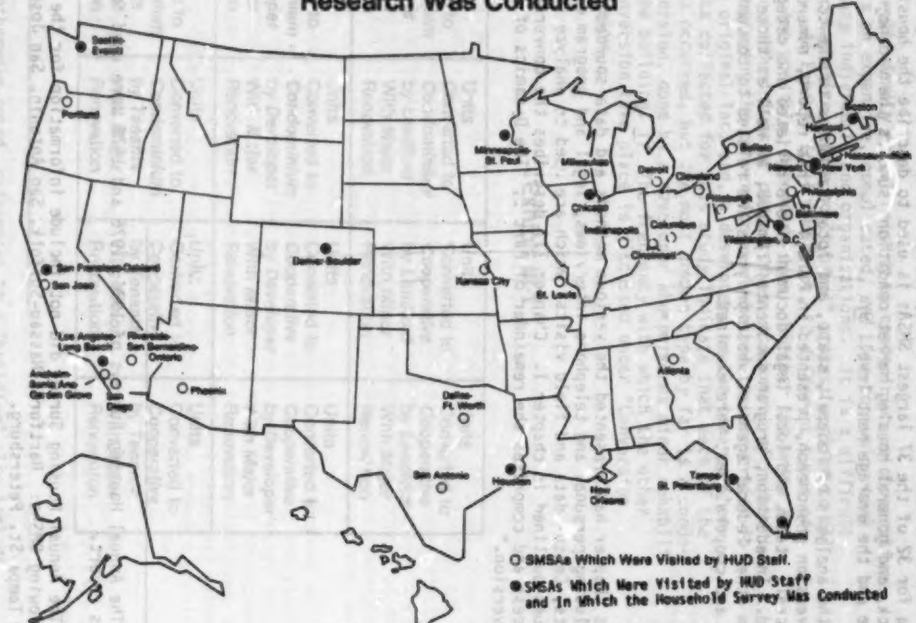
Detailed notes on each SMSA were prepared following the field study. Although they are not intended as comprehensive case studies of condominium and cooperative conversion activity in these metropolitan areas areas, they provide a rich body of information about interarea variations in the conversion phenomenon. These field notes are included in Appendix 1, and the names of persons with whom discussions were held can be found in Appendix 2.

Existing Data Sources

The fourth category of information includes all existing or secondary data sources. This type of information is used in a variety of ways throughout the report. Studies of conversion activity conducted by groups such as consulting firms, state and local governments, and interest groups are used to suggest hypotheses and/or confirm findings derived from the primary data collected and analyzed for this report.

Figure II-1

The Nation's 37 Largest SMSAs in Which Field Research Was Conducted


Seattle-Everett
Portland
San Francisco-Oakland
San Jose
Los Angeles-Long Beach
Riverside-San Bernardino-Ontario
Anaheim-Santa Ana-Garden Grove
San Diego
Phoenix
Denver-Boulder
Minneapolis-St. Paul
Kansas City
St. Louis
Dallas-Ft. Worth
San Antonio
Houston
New Orleans
Milwaukee
Chicago
Detroit
Indianapolis
Columbus
Cincinnati
Cleveland
Pittsburgh
Buffalo
Atlanta
Tampa-St. Petersburg
Miami
Boston
Hartford
Nassau-Suffolk
Newark
New York
Philadelphia
Baltimore
Washington, D.C.
○ SMSAs Which Were Visited by HUD Staff.
● SMSAs Which Were Visited by HUD Staff and In Which the Household Survey Was Conducted

*Standard Metropolitan Statistical Area.

The Annual Housing Survey, 8/ conducted by the Bureau of the Census in conjunction with HUD, is a major source of information for the analysis presented in chapter V on the relationship between housing markets and conversions. Secondary analysis of Annual Housing Survey data for 32 of the 37 largest SMSAs is used to describe the housing stock, and general housing market conditions such as the vacancy rate and the average rent level. 9/

In the analysis of Federal, state, and local responses to the converversion phenomenon, presented in Part 4 of this report, numerous Federal, state, and local legal documents were reviewed and categorized. In addition, program documents from HUD, as well as those from other Federal agencies whose programs are related to condominiums and cooperatives, were examined.

* * *

This chapter has presented the various methods and data sources including personal and telephone interviews, legal and program documents, Census data and field visits, which are used to analyze the issues outlined in chapter I. Chapter III describes the conversion process and comprises the remainder of Part I, "The Dynamics of Conversion."

8/ The Annual Housing Surveys of 1974, 1975 and 1976 were used for this report.

9/ The Annual Housing Survey did not include information for the following SMSAs: Hartford, Nassau-Suffolk, San Antonio, San Jose, and Tampa-St. Petersburg.

Chapter III
The Conversion Process

Converting multi-family rental housing to condominium or cooperative ownership is an expensive, complicated, and time-consuming task involving many individuals and organizations. It is a difficult procedure to summarize, since no "typical" process applies to all conversions. As Exhibit III-1 indicates, 12 different types of conversions are possible, depending upon: whether the units are converted to condominiums or cooperatives; the extent of rehabilitation accompanying the conversion; and whether the conversion is done by the original landlord, a developer, or the tenants themselves. Data collected for this study indicate that each of the 12 types has occurred, but the most common type by far is a condominium conversion, done by a developer who performs minor rehabilitation to the building. 1/ The frequency with which the other types of conversion take place is discussed under "Conversion Managers," below.

Exhibit III-1

Units Converted to ***Condominium*** by ***Landlord*** With ***Minor*** Renovation	Units Converted to ***Condominium*** by ***Landlord*** With ***Major*** Renovation	Units Converted to ***Cooperative*** by ***Landlord*** With ***Minor*** Renovation	Units Converted to ***Cooperative*** by ***Landlord*** With ***Major*** Renovation
Units Converted to ***Condominium*** by ***Developer*** With ***Minor*** Renovation	Units Converted to ***Condominium*** by ***Developer*** With ***Major*** Renovation	Units Converted to ***Cooperative*** by ***Developer*** With ***Minor*** Renovation	Units Converted to ***Cooperative*** by ***Developer*** With ***Major*** Renovation
Units Converted to ***Condominium*** by ***Tenants*** With ***Minor*** Renovation	Units Converted to ***Condominium*** by ***Tenants*** With ***Major*** Renovation	Units Converted to ***Cooperative*** by ***Tenants*** With ***Minor*** Renovation	Units Converted to ***Cooperative*** by ***Tenants*** With ***Major*** Renovation

---

1/ Unless otherwise noted, references to a "building" also include garden or townhouse style rental complexes.

Although the process associated with each type of conversion is somewhat different, four steps usually occur: (1) obtaining financing; (2) selecting and, usually, rehabilitating a building; (3) complying with government regulations; and (4) marketing the units and relinquishing control of the building to an owners association. 2/ The order in which these steps take place varies considerably from conversion to conversion. To some extent the variability depends on the type of conversion, but differences can also be attributed to the practices of financial institutions, the extent and nature of government regulation, and the market for converted units.

Factors Which Affect the Type of Conversion

Three basic factors determine the type of conversion that is undertaken: the ownership arrangement -- either condominium or cooperative; the renovation which takes place -- either minor or major; and the conversion manager -- either landlord, developer, or tenant group.

Ownership Arrangement. Conversion to condominium ownership differs from a cooperative conversion in several respects. A person who buys a condominium owns the unit as well as a proportionate share of the common areas; therefore, the purchase is considered a real estate transaction. The condominium owner is responsible for paying the principal and interest on any mortgage loan made to buy the unit; the cost of maintaining the individual unit; a portion of the operating and maintenance expense for the common elements including any utilities not individually metered; any association fees or dues; and, in some cases, contributions to a reserve fund used to finance major repairs to the building. In addition, special assessments may be levied on condominium owners if the reserve fund cannot meet the cost of needed improvements.

Unlike condominium ownership, a person joining a cooperative housing corporation does not purchase a housing unit but, rather, a share in the corporation which owns the entire building; therefore, the transaction is considered a stock transfer. The share entitles the cooperative member to enter into a proprietary lease 3/ which permits the owner to live in a particular unit and use the building's common areas. The cooperative member is responsible

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2/ The common features in the conversion process were discovered during interviews with developers and other participants in the conversion process.

3/ A proprietary lease (also called an occupancy agreement) gives a shareholder an exclusive right to occupy a particular unit and specifies the rules and regulations governing the occupancy. This document also obligates a cooperative member to pay a proportionate share of the principal and interest on the blanket mortgage and other expenses related to the operation of the cooperative.

for paying the principal and interest on any mortgage loan or consumer loan made to purchase the share; 4/ a portion of the operating and maintenance expense, including any utilities not individually metered; any dues or fees owed the cooperative corporation; and contributions to the reserve fund. In addition, the cooperative member must make a pro rata contribution (usually each month) to the principal and interest for the blanket mortgage covering the entire building. Unlike a condominium, when major repairs to the cooperative are needed, the blanket mortgage may be refinanced to meet their cost. A condominium property then has individual unit mortgages (unless cash is paid for a unit). A cooperative has a blanket mortgage on the entire building and, in many cases, mortgages for shares held by individual owners. 5/

A Person Buying a *Condominium* Owns a Unit and a Proportionate Share of the Common Areas.	**A Person Joining a *Cooperative* Owns a Share in the Cooperative Housing Corporation Which Owns the Entire Building.**

Further differences exist between the two forms of multiple ownership. Condominium conversions are regulated to a much greater extent than cooperative conversions, except in New York (where the cooperative form of multiple ownership predominates), the District of Columbia and California (which have regulated cooperative conversions only since 1979 and 1980, respectively). In the past, one result of limited regulation was that the costs associated with a cooperative conversion were somewhat less than those for

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4/ Since cooperative shares are considered stock rather than real estate, financial institutions, until recently, would not make long term loans for their purchase. Purchasers of cooperative shares had to pay cash, finance the cost through a consumer loan or, when permitted by the cooperative board of directors, make installment payments to the cooperative corporation. In 1971, the New York State Legislature authorized lending institutions in that state to make long-term mortgage loans for cooperative shares. This is probably one reason New York cooperatives became so popular in the 1970s and why most cooperatives are in this state. In 1979, the Federal Home Loan Bank Board authorized savings and loan associations throughout the country to make cooperative mortgage loans. Little use has been made of this authority, because it was granted just at the time interest rates began their rapid increase.

5/ For purposes of this chapter, the two types of mortgages will be called a "blanket mortgage" and a "cooperative mortgage."

converting a building to a condominium. A slight savings is still realized by purchasers of a cooperative share, since the cost of transferring stock is not as high as the closing costs for a real estate transaction in most jurisdictions.

If the owner of a cooperative share is unable to sell the cooperative stock when desired, the cooperative corporation sometimes buys the share. In fact, cooperative corporations often have a right of first refusal for all shares, i.e., a cooperative member must give the corporation an opportunity to buy the stock before it is offered to others. The owner of a condominium does not usually have this option if the unit cannot be sold. 6/

When a conversion is completed, both the unit owners in a condominium and the shareholders in a cooperative form organizations which are governed by an elected board of directors. In cooperatives, the board of directors is given more discretion than the condominium board, especially regarding who may join the cooperative. Potential share buyers may not be barred for any reason which violates civil rights laws, but they may be rejected if the board decides, for example, that their income is not sufficient to meet the costs of living in the cooperative. Cooperative corporations are particularly concerned about a shareholder's ability to make payments toward the blanket mortgage on the building, since a default on the cooperative's blanket mortgage may occur if a large number of members are unable to make payments. 7/ A condominium owner may usually sell a unit to any qualified purchaser. In addition, condominium boards generally permit investors who own condominiums to rent the units to third parties. Few cooperative boards allowed investor ownership of shares in the past; recently, however, a few cooperatives have permitted investor ownership and rental of units.

Extent of Renovation. Most buildings are renovated to some degree during the conversion process. It is estimated that minor renovations are made to about 75 percent of the buildings in central cities and 85 percent of those in the suburbs. The remaining buildings undergo some form of major rehabilitation. 8/ For purposes of this report, minor rehabilitation includes so-called "cosmetic" or "as is" conversions. Renovations are limited to painting,

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6/ Although a right of first refusal may be included in the declaration of condominium or in a condominium's bylaws, condominium associations seldom exercise this option.

7/ One New York City market expert interviewed for this study commented that in New York only one cooperative had defaulted on its mortgage in recent history. However, the concern is still prevalent cooperative corporations still fear this possibility of default.

8/ U.S. Department of Housing and Urban Development, Survey of Current and Former Residents of Converted Buildings, December and January 1980.

carpeting, making minimal repairs to mechanical systems and structural features, improving landscaping, refurbishing recreational facilities, and upgrading parking areas. Major rehabilitation may involve all the "cosmetic" improvements as well as the substantial repair or replacement of one or more major mechanical systems, significant structural alterations, or the complete gutting and reconstruction of a building's interior. (See chapter VIII for additional information regarding renovations.)

Conversion Managers. 9/ A high proportion of the rental buildings that are converted are changed to condominium ownership, and most conversions are carried out by developers. 10/ A developer is more likely than a landlord to convert a building since, under Federal tax laws, a landlord who converts and sells individual units would be considered a dealer in real estate. Profits earned would be treated as ordinary income and taxed at a relatively high rate. If, however, a landlord's property is sold to a developer who then converts and sells the units, the landlord's profits are considered a capital gain and are taxed at a rate much lower than that for ordinary income. (Chapter V discusses in more detail a landlord's incentives to sell a building for conversion.)

Developers who handle condominium conversions operate on a national, regional, or local level. National developers are few in number and appear to handle only high-quality buildings which can be converted and sold rapidly. Some national developers started their operations in Chicago and, with the expertise gained in this high activity area, expanded into other major metropolitan areas. Two Canadian-based firms also operate on a national level in the U.S. Regional developers are similar to national developers in that they began their activity in one city and then moved into other markets. However, regional developers usually limit their expansion to nearby cities or SMSAs. For example, some Los Angeles-based developers have completed conversions in San Jose. The largest share of condominium conversions are carried out by locally-based developers. These developers are also responsible for most of the conversions requiring major rehabilitation. 11/

9/ For purposes of this chapter, all individuals and groups -- whether developers, landlords, or tenants -- will be referred to as "conversion managers."

10/ Developers who convert buildings to condominiums are becoming an important segment of the real estate development industry, as shown by the fact that a national trade association was formed in 1979 to represent the interests of these developers.

11/ U.S. Department of Housing and Urban Development, Field Interviews in 37 SMSAs Conducted by HUD Staff. September and November 1979.

Regardless of their geographic scope, many developers form separate, limited partnerships for each conversion project they undertake. Individual partnerships are established so that any liability arising from one venture will not extend to a developer's subsequent business activity. Under a limited partnership, the developer, as the general partner, has overall responsibility for completing the conversion and is legally liable for the full amount of any financial losses incurred. Financial institutions, investors, and sometimes employees of the developer join as limited partners. Except for the employees (who may be offered the limited partnership as a work incentive bonus), these participants do not play a major role in the conversion process and view their involvement as an investment.

Developers cite the typical advantages to the limited partnership as their reason for using this form of business: (1) limited partners are responsible for financial losses only up to the amount of their investment; and (2) profits earned by the partnership are not taxed until they are distributed to individual partners, and are then usually taxed as ordinary income. This is in contrast to the corporate form, under which earnings are first taxed as corporate profits and then again as income when distributed to the stockholders of the corporation. Some developers have also entered into joint venture partnerships with financial institutions, former owners of buildings being converted, construction contractors, and investors. Again, a primary intent is to avoid the double taxation associated with the corporate form of business.

Unlike condominium conversions, very few cooperative conversions are managed by developers. 12/ Those developer conversions which do occur are found in areas -- such as Washington, D.C. and the San Francisco suburbs -- where condominium conversion is heavily regulated. In 1980, California extended its state condominium law to cooperatives; and thus, developers in that state may find that cooperative conversions are no longer easier to perform. Washington, D.C. has a law regulating cooperative conversion, but it is not nearly as stringent as the city's condominium regulations. In other respects, including their use of limited partnerships, cooperative developers are very similar to condominium developers.

Despite the apparent tax disadvantages, some landlords have converted buildings to condominiums rather than sell to developers. This is an infrequent occurrence, but appears to be increasing as landlords become more familiar with condominium conversions. Landlords claim that the additional profit realized by eliminating the middleman offsets the higher tax liability. Real estate brokers often assist landlords with

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12/ Most cooperative conversions take place in New York, where the landlord, as opposed to a developer, actually manages the process. A discussion of landlord-managed cooperative conversions appears later in this chapter.

conversions, but other than this business relationship, landlords usually operate as entrepreneurs or under the same form of business they used when the converted building was a rental.

As mentioned, most cooperative conversions occur in New York, and a large share of them are carried out by a building's landlord. Under these circumstances, the landlord -- whether an individual or a real estate partnership -- becomes the "sponsor" of the conversion. A real estate lawyer or other professional in the field (referred to as a "broker") actually handles most of the day-to-day work related to the conversion. To receive capital gains tax treatment of profits, the sponsor/landlord sells the converted building to the cooperative corporation which, in turn, sells shares representing individual units. Sponsors selling the shares directly would be considered securities dealers and possibly liable to the higher ordinary income tax rate. During the conversion process, the landlord/sponsor generally retains the same form of business organization under which the building was rented.

Tenants have successfully managed condominium conversions in Evanston, Illinois, where one small building was converted, and in Washington, D.C., where ten buildings have been converted by tenants. In fact, tenant managed condominium conversions are becoming so popular in Washington that local firms with conversion experience have been placing newspaper ads offering their services to tenants wishing to buy and convert their building. Future condominium conversions are being planned by tenants in Cleveland, Minneapolis, Washington, D.C. and Montgomery County, Maryland, a Washington suburb. Tenant conversions are particularly popular in Washington and Montgomery County because of local ordinances giving tenants the right to purchase a building before it is offered to other buyers. 13/

To carry out a conversion, tenants incorporate as a non-profit organization, legally capable of holding real estate. On completing the conversion, this organization dissolves, and tenants who buy units, along with other purchasers, form the condominium association. Tenant associations generally hire a condominium developer to actually carry out the conversion, but the tenant association, particularly the Board of Directors, has overall responsibility for the process.

13/ Field Interviews, op. cit. In Chicago, tenants in one building organized in response to rumors that their building was to be converted. The group raised money, entered the highest bid to purchase the building, and pre-sold units to current occupants. Nevertheless, the bank receiving the bids claimed the group's offer was not in proper form and awarded the building to a developer who made a lower bid. The tenants immediately offered to buy out the developer, giving him a $200,000 to $300,000 profit. This offer was turned down. No other examples of unsuccessful attempts by tenants to buy and convert their buildings were found in field interviews.

Within the category of tenant-managed cooperative conversions, there are market rate and limited equity cooperatives. The first type of tenant formed cooperative is most prevalent and is found most often in New York and in Washington, D.C. Under this form, a tenant group incorporates as a nonprofit corporation for the duration of the conversion process and becomes the sponsor of the conversion. Lawyers, brokers, consultants and other real estate professionals assist tenants in the conversion. When conversion is nearly completed, the tenant association dissolves and all potential shareholders re-incorporate as a cooperative corporation.

Limited equity cooperatives 14/ are also established by tenants, but their incomes are usually at a much lower level than those of tenants who form market rate cooperatives. Low income tenants also incorporate as a nonprofit corporation to manage the conversion process, but the assistance they receive in supervising the conversion is more diverse than that obtained by higher income tenants. Most limited equity cooperatives have substantial governmental involvement. Federal assistance may be in the form of below-market interest rate mortgage loans, mortgage insurance, and rehabilitation loans. State and local governments provide similar help, as well as offer technical aid, front-end subsidies to share buyers, and partial down payments. Private sector participation, particularly by church groups and community organizations, may also be extensive. 15/

When conversion to a limited equity cooperative is completed, the tenant association reincorporates as a cooperative corporation and sells shares. The price at which the shares are initially sold is determined by the board of directors in accordance with a procedure outlined in the corporate bylaws. If government or private sector involvement in the future operation of the cooperative is extensive, the responsible entity may have a significant say in the sales prices. Similarly, when shares are resold, the board of directors and any other participants set the resale value. Usually, the sales price permits only a small increase over the original purchase price to account for inflation and any improvements made to the shareholder's

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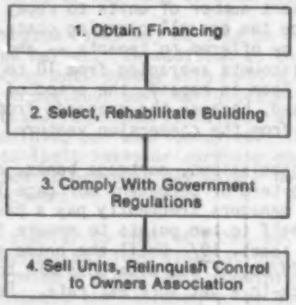
14/ A "limited equity" cooperative is one whose corporate bylaws regulate the resale value of membership shares. The resale price is determined by a formula which considers the original down payment for the share, plus increments to account for inflation, improvements to a unit, and that portion of the blanket mortgage paid by the shareholder.

15/ In 1978, the Federal Government established the National Consumer Cooperative Bank which, among other things, provides technical assistance and mortgage loans to low income housing cooperatives. As of May 1980, the Bank had not yet made loans to finance low-income cooperatives, but is expected to do so soon.

unit. Holding down the resale price is intended to discourage members from selling shares (particularly when housing values in the area escalate rapidly) and to give other low to moderate income households an opportunity to purchase shares at an affordable price. Limited equity cooperatives are found mainly in New York. In the late 1970s, a few cooperatives were established in Minneapolis, Berkely, California, Washington, D.C., and Montgomery County, Maryland. More limited equity cooperatives are being planned in these jurisdictions and in Baltimore and Arlington County, Virginia.

Four Steps in the Conversion Process


1. Obtain Financing
2. Select, Rehabilitate Building
3. Comply With Government Regulations
4. Sell Units, Relinquish Control to Owners Association

1. Obtaining Financing. As with most real estate development, financing for condominium and cooperative conversions is provided by a combination of equity and debt. Equity is supplied by the conversion manager, any partners, and governmental entities; it generally finances 20 to 25 percent of conversion costs. 16/ Two forms of debt -- interim and long-term -- cover the balance. Significant differences exist between the financing arrangements made for condominium, as opposed to cooperative, conversions. Therefore, the two financing forms are described separately.

In a condominium conversion an interim loan finances the "hard costs" of conversion, such as building acquisition and rehabilitation. "Soft costs" are also met by the interim loan and include fees paid to attorneys, real estate firms, consultants, engineers, and government bodies. Long-term mortgage loans are made to individuals buying units in the converted building. The conversion manager is usually responsible for securing both types of loans.

16/ Field Interviews, op. cit. In a few cases developers who undertake conversions may supply more or less equity for a conversion venture.

Commercial banks make most interim loans and charge interest rates varying from one-half to four points above the prime interest rate. When interest rates rose rapidly in 1979/80, some banks stopped making interim loans for conversions, and others added points 17/ to the overall cost of the loan. The term of the loan generally ranges from three months to three years, depending on the anticipated time required to complete a building's conversion. A clause in the loan instrument usually permits the borrower to repay the interim loan before it is due, although a lender may charge a prepayment penalty for this privilege. Since the interim loan is repaid with funds from the sale of individual units, the borrower has a strong incentive to quickly sell a sufficient number of units to repay the interim loan and thereby reduce the overall carrying costs. To ensure rapid sales, units may be offered to tenants -- and sometimes to outside purchasers -- at discounts averaging from 10 to 20 percent. 18/ Once the interim loan is repaid, the price of the remaining units may be increased, because the proceeds from selling these units represent profits from the conversion venture.

Generally, savings and loan associations, mortgage banks, and mutual savings banks provide the long-term or permanent mortgage loans for individual units. Conversion managers frequently pay a particular lending institution from one-half to two points to ensure that the lender will make all mortgage loans. 19/ Until the prime rate increased substantially in 1979/80, it was also possible to pay an additional point or two to lock-in a set interest rate. Few lenders now follow this practice. 20/

17/ A "point" is a payment made to a lender at the time a loan is made and is equal to one percent of the loan amount. The usual reason for charging points is to increase the return to the lender, so that the loan is competitive with other types of loans the lender could make.

18/ Field Interviews, *op. cit.* In New York, where state law requires that a certain proportion of tenants buy before the conversion proceeds, in a few cases discounts as high as 50 percent have been given to tenants, presumably to induce them to buy units and meet the legal requirement.

19/ Field Interviews, *op. cit.* Commercial banks make few condominium mortgage loans because most of their funds are concentrated in demand deposits which are not available for long-term mortgage loans. There are exceptions. For example, in Texas, the same commercial bank may provide both interim and long term financing.

20/ U.S. Department of Housing and Urban Development, Telephone Interviews with Developers and Lending Institution Officials in 28 Central Cities, April 1980.

Financial institutions making mortgage loans usually require that the conversion manager have non-binding agreements from a certain percentage of people (usually representing 60 to 80 percent of all units) indicating they wish to buy units in the converted building. A small, refundable payment is typically made by potential purchasers when they enter into the agreement. Not until this "pre-sale" requirement is met will mortgage lenders provide individual borrowers with funds to finalize unit sales. Financial institutions request the pre-sale so that unit mortgages may be sold either to the Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA). Each organization has a pre-sale requirement (usually in the 70 percent range) which must be reached before either one will agree to buy long-term mortgages.

Loans made by mortgage banks may be sold to FNMA for resale in the secondary mortgage market. In addition to the pre-sale requirement, a converted building must comply with FNMA's building condition standards before individual unit mortgages will be bought. One of FNMA's most important requirements is that a substantial majority of the units in a building be owner occupied. This represents an attempt by FNMA to limit investor purchase and subsequent rental of condominiums, which it believes may have a negative effect on the quality of the project.

FHLMC has a role similar to that of FNMA, but FHLMC buys conventional mortgages from savings and loan associations instead of mortgage bankers. To determine a converted condominium's likelihood of success, FHLMC inspects the building to be converted and its neighborhood. If FHLMC's criteria are not met, it may not buy the mortgages for the building.

It is estimated that from 10 to 15 percent of all condominium mortgages bought by FNMA and FHLMC are for converted condominiums.[21] Although such mortgages are a small share of total volume for the two organizations, FNMA and FHLMC play an important role in the conversion process. Criteria they establish to reduce their risk in buying condominium mortgages have become, in effect, the industry standards in the field of condominium conversions. (Chapter X presents additional information on FNMA and FHLMC.)

If developers performing condominium conversions are favorably known to local lenders, they usually have no difficulty in obtaining interim or long-term financing. An exception may occur if the developer is carrying out a major rehabilitation (and virtually all conversions needing substantial renovation are performed by developers.) Lenders may charge a slightly higher interest rate or add points to the cost of the interim loan because of the developer's greater financial risk. For example, the discovery of unanticipated structural defects may delay the conversion and add to the carrying costs on the interim loan and to the overall expense of the project. If these costs are high, lenders fear the developer may default on the interim loan.

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[21] Neither FNMA nor FHLMC maintains records which distinguish between the mortgages they buy for new condominium units and those they buy for converted units. The estimate used was provided by officials of the two organizations in February 1980.

When tenants first began converting buildings to condominiums, lenders in Washington D.C. (where nearly all tenant-managed condominium conversions have occurred) sometimes hesitated in making loans. As the concept proved successful, however, financial institutions became willing to provide both short-term and long-term financing. Tenants who carry out condominium conversions are usually assisted by well known local developers and financial consultants, which tends to reduce lender reluctance. In addition, since tenants convert buildings as nonprofit ventures, the prices tenant-purchasers pay for units are generally below those for other comparable units in the same market. Therefore, the longterm mortgages many tenants require are less than those needed for developer- or landlord-managed conversions of similar buildings. Tenant groups note that this factor helps considerably in obtaining both short-term and long-term financing.

Besides these conventional means of obtaining financing, many tenant associations stage various types of fundraisers to collect money. The proceeds are typically used to cover certain front-end soft costs, such as lawyer and consultant fees. Tenant associations may also accept financial expressions of interest from individuals who are not residents of the building but who wish to purchase units following conversion.

In cooperative conversions, an interim loan may be secured if the conversion is undertaken by a developer or landlord. This loan finances a developer's acquisition and renovation of a building or, in the case of a landlord, only the rehabilitation expenses. When shares are purchased and the building is turned over to the cooperative corporation, the interim loan and any mortgage held by the landlord is usually repaid.

Two forms of long-term financing are needed in cooperative conversions. The first type of loan is obtained by the cooperative corporation and finances that portion of the acquisition costs which are not covered by down payments for shares or the actual sale of shares. If the conversion is being managed by tenants, proceeds from the loan may also cover renovation costs and the retirement of existing mortgages on the building. This long-term loan is secured by a blanket mortgage on the entire building, and the cooperative corporation is the mortgagor.

The second type of long-term financing required is permanent or mortgage loans for the purchase of individual shares in the cooperative. Cooperative mortgages are common only in New York, where state law has permitted them since 1971. 22/ Without a cooperative mortgage, a purchaser must pay cash, make a consumer loan, or when allowed, make installment payments for the share to the cooperative corporation. This lack of mortgage loans is one reason why cooperative ownership has been so rare outside of New York State.

New York lenders are authorized to make cooperative loans at one percentage point above the state usury ceiling of (11-1/4 percent as of January 1980). This has, of course, contributed to the popularity of cooperative mortgages. However, when the state usury ceiling was preempted by the Federal government in 1980 because of rapidly increasing interest rates, the cooperative mortgage market came to a virtual halt in New York. Lenders in New York noted that, while they could charge an interest rate which matched the prime rate, many potential borrowers could not qualify for mortgage loans at the higher interest rate. 23/ Since neither FHLMC nor FNMA may purchase cooperative mortgages for resale in the secondary mortgage market, New York lenders who make mortgage loans need not meet any presale requirements or other standards imposed on condominium conversion projects by either of these organizations. 24/

Developers who have converted units to cooperatives have usually done so because of stringent regulation of condominium conversions in their areas of operation. Because these developers often had local reputations as condominium converters, they had little difficulty in obtaining either long-term or short-term financing for the cooperative conversions, despite lender's lack of familiarity with the cooperative form of ownership.

Landlords who convert to cooperatives are almost exclusively located in New York. In obtaining financing, landlord/sponsors must ensure that all requirements of New York State law -- particularly those

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22/ The Federal Home Loan Bank Board authorized the country's savings nd loan associations to make cooperative mortgages in August 1979; owever, little use has been made of this authority since it coincided ith the rapid rise in interest rates.

3/ Telephone Interviews with Developers and Lending Institutions, p. cit.

4/ The Housing and Community Development Act Amendments of 1979 gave HLMC authority to study the feasibility of buying cooperative mortgages or resale in the secondary market. FNMA has not yet received a imilar authority.

related to the portion of tenants which must agree to purchase shares -- are met. One factor in landlord sponsored cooperative conversions that is increasingly subject to negotiation between landlords and tenants is the degree of renovation made during the conversion process. If landlords perform less work, the size of the blanket mortgage and the cost of individual shares may be reduced considerably.

Tenants who manage conversions to market-rate cooperatives (as opposed to limited equity cooperatives) sometimes experience difficulty in otaining financing, particularly outside of New York State. The reason for lenders' reluctance may be attributed to either their ignorance of the cooperative concept or their fear that mortgage default is a greater possibility when tenants manage a conversion. An additional factor is that financial institutions cannot sell cooperative mortgages on the secondary mortgage market, because such loans are not technically mortgages. Lenders may have to hold the loans for their full terms, a practice that prudent financial institutions do not favor.

Financing for tenant managed conversion to limited equity cooperatives differs significantly from other types of cooperatives. Government entities and private groups -- principally community organizations, church groups, and nonprofit housing organizations -- frequently help with financing. Assistance has been in the form of below market interest rates for the blanket mortgage, down payment assistance for tenants to buy shares, and grants to finance renovations.

Further, because shares in limited equity cooperatives are priced very low relative to market rate cooperatives (average sales prices range from $500 to $3,000), low-income purchasers usually do not require longterm financing to buy shares. In many instances, too, government programs finance a large portion of the share's purchase price.

During interviews conducted for this study, managers of conversion projects and those who provide professional or governmental assistance frequently mentioned that obtaining financing is the most crucial feature of the conversion process. An illustration of this step's importance occurred during the 1979/80 period of rapidly rising interest rates when few conversion ventures were initiated unless conversion managers already had commitments from lenders for interim and long-term financing at favorable terms. 25/

25/ Telephone Interviews with Developers and Lending Institution Officials, op. cit.

2. Selecting and Renovating the Building. Selecting a building may appear unnecessary in a landlord- or tenant-managed conversion; however, tenants and landlords examine a building's location and other features just as a developer does to ensure that it is suitable for conversion. The following elements are typically considered in building selection:

Factors Considered in Selecting a Building for Conversion

- ☑ Location
- ☑ Quality of Construction
- ☑ Number of Bedrooms and Size of Rooms
- ☑ Age of Building
- ☑ Amenities
- ☑ Remodeling Costs

a. Location: According to conversion managers, an appropriate location is one with access to public transportation, business districts, and shopping. Buildings situated in an historic part of the city or in a neighborhood with some special ambiance are also desirable for conversion. This feature is so important to some developers that they will choose even poor quality buildings for conversion if they offer superior locations.

b. Quality of Construction: The conversion manager, engineers or architects usually make a preliminary inspection of a building to determine if it is sound enough to be converted. If the building is judged suitable, detailed architectural and engineering studies are made of its structural and mechanical elements. Problems discovered in these examinations may eliminate a building from consideration, particularly if the conversion manager plans a rapid, relatively inexpensive conversion process.

c. Number of Bedrooms and Size of Rooms: The importance of this feature varies with the market. In areas where young professionals comprise a major market segment, buildings with a high proportion one bedroom and efficiency units will sell rapidly. Units with two bedrooms or more are popular in the suburban and retirement communities because buyers have larger households or want extra space for guests or for hobby rooms. Smaller rooms are acceptable if other features -- principally location -- are outstanding. In other cases, large rooms may be a strong selling point.

d. Age of Building: New buildings (say, less than 20 years old) are sometimes favored for conversion because their appliances, mechanical systems, and structural components are more likely to be in good condition. However, older buildings are selected if they have been well maintained and if regular repairs or renovations have been made by the landlord. An additional selection factor for older buildings is that they may enjoy more favorable locations, be better constructed, or have more architectural appeal than newer buildings.

e. Amenities; Again, the particular market determines the importance of features such as swimming pools, party rooms, putting greens, health spas, and saunas. While a swimming pool may be a "must" for a successful conversion in southern California, a converter operating in a northeastern city may not consider this amenity to be important.

f. Remodeling Costs: Conversion managers carefully consider the extent of rehabilitation needed so that the sale prices of units will not be prohibitive to their intended purchasers.

Developers who specialize in major rehabilitations may choose buildings which would be rejected by other converters. Selection criteria are different in that these developers often select small, vacant, abandoned, or dilapidated buildings which can be bought cheaply. However, developers ensure that the buildings or their neighborhood offer some aesthetic feature or distinctive charm which will justify the extremely expensive renovation required. (Chapter VIII discusses in more detail the types of buildings selected for conversion and the neighborhoods in which they are located.)

A large share of buildings chosen for conversion require only minor rehabilitation. Usually, renovations are carried out by subcontracting firms under the direction of a general contractor, the conversion manager, or developers and brokers hired to assist landlords and tenant groups. Besides the renovations described earlier, interior and exterior designers sometimes create a more home-like atmosphere by placing comfortable furniture, plants, and colorful paintings in sterile lobbies and by placing shrubbery near parking lots, patio furniture around swimming pool areas, and picnic tables on grounds surrounding the building. In garden-stype and townhouse complexes, exterior work sometimes includes minor architectural changes, such as varied doorways, to give each unit an individualized appearance.

Although renovation is an important part of the conversion process, purchasers are sometimes given the option of having little renovation done to reduce the selling price of a unit. When this occurs, the exterior of the building is refurbished, but individual units are repaired only to meet local building code standards. Purchasers decide what improvements they want and pay accordingly.

The speed and care with which rehabilitation is done is important to conversion managers, to tenants (whether buying or moving), and to outside purchasers. If rehabilitation is accomplished rapidly and well, units can be sold sooner, thus reducing the carrying cost of any interim financing.

In addition, tenants who are buying will frequently not endure a protracted remodeling period which might lead to ill-feeling toward the conversion manager. Developers and landlords find, too, that sales to tenants increase after they see first-hand what the rehabilitation is accomplishing. This is desirable since high tenant purchase helps to reduce carrying costs on interim loans and marketing expenses. A further benefit to the conversion manager is that tenants who intend to move after conversion may stay in their units as long as possible rather than move when renovation begins. Rent collected from these tenants will bolster a conversion manager's cash flow during periods of heavy outlays. (Chapter IX contains more information regarding the experiences of tenants living in buildings being converted.)

3. Complying with Government Regulations. The degree to which condominium and cooperative conversions are regulated varies across jurisdictions and states. All states have adopted laws related to condominiums (newly build or converted) and one-half impose some additional regulation on conversions. State laws generally also govern the formation of cooperative conversions, although few states or localities regulate cooperative conversion. (Chapters XI and XII contain a description of laws concerning condominium and cooperative conversions.)

Conversion managers generally hire an attorney to ensure that proper legal documentation is filed and that all legal requirements are observed. To legally convert a building to condominium ownership a state or jurisdiction usually requires that a Master Deed or Declaration be recorded. A record plat, which describes and graphically depicts the way in which the property is subdivided, and the bylaws for the condominium association generally are filed with the Master Deed. Other legal documents which will be needed at various stages of the conversion process are: purchase agreements for those buying units; individual unit deeds; and a management agreement with the firm operating the building during and after conversion.

Many jurisdictions and states have enacted measures which attempt to restrict condominium conversions or to protect existing tenants and purchasers of units. To comply with these laws, conversion managers often must obtain various government approvals before proceeding with a conversion. It may also be necessary to file a registration statement, offering plan, or disclosure statement before converted units may be sold. 26/

These documents are provided to unit purchasers and sometimes to existing tenants as a form of buyer protection. The most common form of tenant protection offered by law is a notice to tenants that their building is to be converted. Such notices usually indicate a time by which tenants must vacate the unit they occupy. The conversion manager must provide all legal notices in writing; and, although usually not required by law, many developers follow such a notice with a meeting for tenants. During these meetings, a tenant's rights regarding the unit, and any legally mandated form of relocation assistance or financial aid, are explained.

State or local laws sometimes require a conversion manager to provide relocation assistance to tenants moving from converted building. For example, in the Los Angeles SMSA, conversion managers comply with ordinances of some municipalities by providing monetary payments to tenants who move or by helping them to find new housing. One large developer employs a full-time relocation team to assist tenants with moves. Where relocation assistance is not legally required, some conversion managers voluntarily provide this service to tenants. In St. Paul, for example, one developer gave tenants 90 days of free rent in lieu of direct financial aid; and in Hartford, a developer helped a few tenants locate new housing, pay for their move, and make new security deposits.

Besides tenant and consumer protections, several governments have passed statutes aimed at slowing or halting conversions. Some California municipalities prohibit conversion of a building until a certain proportion of existing tenants either agree to the conversion or execute agreements to buy units. New York State has a similar law. Other jurisdictions, again predominantly in California, forbid conversions if the rental vacancy rate falls below a level established by law, or allow only a certain number of units or a set proportion of the multi-family rental supply to be converted each year. The effect of these restrictions may be a delay in the conversion process. For this reason, conversion managers note that complying with government regulations may increase the cost of conversion, particularly by adding to the carrying charges on interim financing.

26/ These three documents are similar in that each describes the property being converted and provides information on the individuals carrying out the conversion, unit selling prices, down payment requirements and financing arrangements. Especially in the case of a disclosure statement, details are given on the nature of the defects found in engineering inspections of the building.

In a tenant-managed condominium conversion, the tenant association must incorporate as a legal entity capable of buying real estate. Tenant associations are then responsible for complying with all regulations. Even though the tenant association may be in daily contact with tenants, its board of directors must formally transmit all notices required by law. The tenant association is also responsible for providing any legally mandated relocation assistance to tenants.

To legally convert a building to cooperative ownership, the conversion manager must first organize a cooperative corporation composed of all households buying shares in the cooperative. The households then incorporate in accordance with the appropriate state corporation laws. This procedure involves preparation of legal documents, such as organizational minutes, share certificates, and occupancy agreements or proprietary leases for each member; a corporate charter; and bylaws for the corporation.

Tenant-sponsored cooperative conversions are growing in popularity, principally in the New York and Washington, D.C. SMSAs. In these areas, tenant groups must legally incorporate as a tenant association able to own real estate before proceeding with the planned conversion. However, in some limited equity cooperatives with heavy government involvement, tenant groups do not incorporate until they legally form the cooperative corporation. This is because a government entity, rather than a tenant group, is purchasing the building which will eventually be sold to the tenant cooperative corporation.

Most buildings selected for cooperative ownership require and receive only minor renovation. New York State's Offering Plan for converted cooperatives requires a sponsor to disclose every defect in a building planned for conversion, whether discovered by inspectors or engineers employed by the state, the tenants, or the sponsor. Defects do not have to be corrected, but most sponsors repair at least those needed to meet building code standards. Some New York purchasers, especially existing tenants, are willing to accept buildings in "as is" condition in return for a lower sales price.

4. Marketing Units and Relinquishing Control. Many conversion managers aim at a high rate of tenant purchase and market buildings accordingly. If a large proportion of tenants buy units, the pre-sale requirement often needed for financing will be easier to meet; units may be sold faster, reducing the length of the conversion process and the overall carrying cost on any interim loan; and tenants will be less likely to oppose the conversion and take actions which could delay and add to the cost of the conversion process. To ensure high rates of tenant purchase, developers and landlords frequently offer discounts ranging from an average of 10 to 20 percent.

Tenant discounts have benefited many tenants by allowing them to buy units at below-market prices and realize substantial appreciation in the unit's value very quickly. Increasingly, individuals are moving into rental buildings which they believe may convert in order to take advantage of tenant discounts. In some high demand markets where prices of converted units have been appreciating rapidly, real estate investors rent units in a number of buildings in anticipation of conversion. Units are sublet until conversion when the investor, as lessee, may buy the unit at the tenant rate. To avoid this situation, landlords contemplating conversions sometimes stop renting vacant units, rent only on a month-to-month basis, forbid subleases, or limit discounts to those with a tenancy of set duration. 27/

Conversion managers vary in their marketing approaches to investors. Some developers, especially in the vacation states of Florida and Hawaii, actively seek investor participation. Investors may also be a marketing target if state or local law requires that a number of units be retained for rental by elderly, handicapped or other classes of tenants who may rent investor-held units. Other conversion managers avoid purchases by investors, because they fear potential problems between owner-occupants and an investor's tenants. A second reason for having few investors is the FHLMC and FNMA standard of 80 percent owner occupancy.

Until recently, few cooperative shares were sold to investors because cooperative housing corporations believed tenants to whom investors rented would detract from the cooperative aim of shared housing responsibility. As the distinction between condominiums and cooperatives has blurred in some markets (most notably Washington, D.C.), investor participation has increased. In some instances, cooperative developers have even secured financing for investor purchasers.

The local demand for condominium and cooperatives, of course, greatly affects the marketing stage. In "soft" markets, such as Baltimore and Milwaukee, it is more difficult to sell units to either tenants (despite discounts) or nontenants. Where demand is greater, potential purchasers need few inducements to buy. In a suburb of Washington, D.C., for example, a developer converted a large garden-style complex but was able to keep sales prices relatively low by limiting renovations. It was necessary to hold a lottery so that potential purchasers could be culled from the long list of nontenants wishing to buy.

In areas such as Houston, where rental townhouses have been converted to condominium ownership, conversion managers market the units in the same way as non-condominium townhouses. Since competition is

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27/ Field Interviews, op. cit.

strong between the two types of townhouses, the condominium concept is underplayed in the marketing phase so that this somewhat different form of ownership does not discourage potential purchasers.

Marketing strategies also differ between individual buildings and townhouse or garden-style complexes. In a single structure, all units usually are marketed simultaneously and sold over a short (say, one-year) period. Garden or townhouse complexes are generally converted and marketed in several phases, with the overall process sometimes spanning five years or more. Often, several units in the complex are renovated and advertised as models to test market public acceptance of the planned conversion. Response to the model units permits the conversion manager to determine the pace at which the remainder of the complex is converted and the households to which advertising and marketing efforts are subsequently directed.

As part of the marketing strategy, most developers and landlords open a sales office on the premises immediately following the announcement of a conversion. They also use meetings and social gatherings with tenants as an opportunity to market units. Emphasis is placed on tenant discounts and the tax advantages of homeownership, while discussion of increased monthly housing costs is minimized. These conversion managers and the sales firms they employ tend to use low-key sales approaches. Tenants note, however, that more forceful tactics (such as repeated telephone calls or false reports on the number of units actually sold) may be used if sales are lagging or if the developer wants a very rapid sellout.

Marketing problems are more likely to occur in a major rehabilitation project than in a conversion requiring only minor repairs. Unforeseen rehabilitation expenses can push the planned sales prices beyond the cost of comparable housing, and it is difficult to show and sell individual units before most renovation is finished. In markets with a heavy demand for totally rehabilitated units, however, developers report that people wishing to buy the units routinely drive through city neighborhoods looking for newly begun conversions. When a building is located, interested parties follow its progress and often make bids for a unit before a firm sales price is set.

Developers and landlords who convert to cooperatives, particularly outside the New York metropolitan area, may have to market the cooperative concept as well as individual shares. Cooperative ownership raises suspicions among potential purchasers who are unfamiliar with it or who prefer buying real estate rather than a share of stock. Conversion managers sometimes attempt to overcome any concern by deemphasizing certain cooperative features and marketing the units as a type of condominium.

In a tenant-managed conversion, very little marketing may be required. Most tenants try to purchase units since the nonprofit nature of tenant-managed conversion allows units to be sold at below-market prices. However, a few units are usually available to nontenant purchasers, and the balance between tenant and nontenant buyers has become a volatile issue in tenant-managed conversions. An example illustrates this point. In a rental building of 40 one-bedroom units, the total acquisition and conversion cost is, say, $2 million. Each unit could then be priced at $50,000 for tenants. (This figure is below the 1979 average price of $71,000 for a condominium in Washington, D.C., where most tenant-managed conversions are occurring.) If 30 tenants wish to buy units, the other 10 units could be sold to outside buyers at a higher price. If the outsider price were increased to $70,000, the selling price to the 30 tenant purchasers could be lowered to about $43,000. Problems have arisen when tenants who have the funds to buy a unit pressure (however subtly) tenants with only a marginal ability to buy to surrender their right to purchase.

Marketing is a minor part of a limited equity cooperative conversion, since members tend to be either tenants living in the building or individuals chosen by government or private organizations to live in the cooperative.

State and local condominium laws specify the time at which the conversion manager must relinquish control of a building to the condominium owners association. Generally, however, when all units are sold and a large percentage of them have gone to closing, the turnover will occur. These same laws also indicate organizing principles for the condominium association, such as the duties and responsibilities of the board of directors. It is typically left to the discretion of individual boards of directors to determine whether households renting in the converted building may join the owners association, as well as their voting powers.

Most developers, it appears, readily complete the turnover at the appropriate time; but there have been a few cases where condominium associations have had to struggle with the developer for control of an association. There are also examples of condominium owners who have lost leverage over a developer once the formal relationship was severed. Promised work was not finished, or it was difficult to have the developer meet certain financial responsibilities. However, in jurisdictions with strong consumer protection regulations, developers generally establish a mechanism for handling problems with items they repaired or replaced during the conversion process.

In a cooperative, a sponsor may relinquish control when the converted building is sold to the cooperative corporation; or, as sometimes happens in New York City, the sponsor may control the corporation for several years following conversion. A sponsor retains control by placing himself or other non-shareholders on the cooperative board before the building is sold to the cooperative corporation.

Since some terms run as long as three years, the sponsor, in effect, can exercise some control over the cooperative even after the conversion is completed. Tenant associations which manage cooperative conversions must dissolve as a legal entity and reincorporate as a cooperative corporation to govern the converted building. Control in many limited equity cooperatives is not fully turned over to the cooperative members but, rather, is shared with government or other sponsoring agencies.

* * *

Multi-family rental buildings are converted to condominium or cooperative ownership in a process which involves at least the four steps just described. Each conversion venture is a unique project, however, which is heavily influenced by elements external to the actual process. Variations within each phase of the conversion process may result from the ownership arrangement, the extent of renovation, and the individual or organization managing the conversion process.

Chapter IV

The Volume and Location of Conversion Activity

Both supply and demand factors contribute to condominium and cooperative conversions. Part II of this report addresses several related issues concerning these supply and demand relationships. This chapter describes the extent and location of conversion activity both in absolute numbers and as a proportion of the rental supply. Housing demand and supply, housing market, and financial conditions which contribute to the level of conversion activity are examined in chapter V. Chapter VI focuses on the composition of demand for conversions, that is, the types of households who own and rent converted units. Finally, chapter VII integrates both demand and supply factors in an analysis of the effect conversions have on the owner and rental supply and in projecting future conversion activity throughout the 1980-85 period.

The analysis here is based on the most extensive efforts to date to document the national number of rental housing units converted to condominium or cooperative ownership between 1970 and 1979. A brief description of the methodology and problems encountered in constructing the estimate is given first, followed by a presentation of national and subnational conversion estimates. These figures are then used to compute the proportion of the Nation's rental housing supply which has, thus far, been converted.

Determining the Number of Conversions

In the past, little reliable information has been available concerning the number of rental units converted to condominium and cooperative ownership throughout the Nation. A few studies have attempted to construct national data, but their reliability is questionable. Accurate information on the extent of conversion activity has been collected for only a few specific cities or SMSAs, primarily those with high levels of conversion activity. This lack of national data reflects both the great variation in ways state and local governments, developers and other observers define a converted unit, and the fact that large-scale conversion activity is such a recent phenomenon that national norms (particularly with respect to record keeping practices) have not yet been developed.

Governmental bodies sometimes consider an application to convert a building the equivalent of a completed conversion. As a result, units may be considered converted well before they are actually marketed as such. In addition, if factors such as a lack of financing cause a developer to delay or cancel a planned conversion, the units may be counted as conversions even though they remain rental. The State of California, for example, maintains records on applications received to convert buildings. These records have been used by observers as a basis for estimating the volume of conversion activity in that state. Applying for conversion, however, is only the first step in a complex, often lengthy process which must be followed before a converted unit is actually sold. Therefore, using application figures as a surrogate for completed conversions overestimates the actual volume of conversions in this state.

Another reason national estimates are difficult to make is that many states and localities do not maintain detailed records of properties which have been converted. In some instances, records do not distinguish between newly built and converted condominiums, making an accurate count of conversions nearly impossible. For example, conversions in Texas and Illinois are recorded by filing a Declaration of Condominium with the appropriate County Clerk's Office; the same procedure and form are used to record newly built condominiums.

Since many governments outside of New York State either do not regulate or regulate only slightly the conversion of rental units to cooperatives, it is even more difficult to collect data on this type of conversion. For example, in Washington, D.C. it is not necessary to formally register a converted cooperative unit with the government as would be the case with a condominium unit. A further complication arises in New York (where cooperatives are prevalent) because a building is not considered a converted cooperative until a certain percentage of tenants agrees to purchase units.

Aside from specific state and local differences, some developers consider a building converted at the time they inform tenants that their units will no longer be available for rent. From this point, developers may even advertise the building as a condominium. Other developers may not consider building converted until enough purchase and mortgage commitments have been obtained to judge the feasibility of conversion.

Differing conversion processes, definitions, and methods of record keeping contribute to the problem of merging information collected from separate jurisdictions into a national estimate of conversion activity. However, by developing a standard definition of conversion and by undertaking an intensive review of documents and records maintained by state and local governments, it is now possible to reliably estimate the number of conversions carried out between 1970 and 1979.

Previous Estimates of National Conversion Activity

Of the few previous efforts to determine the national volume of conversion activity, two are notable. First is the 1975 HUD *Condominium-Cooperative Study* 1/ which examines the potential impact of new and converted condominium and cooperative units on the nation's housing supply. Since relatively little conversion activity had occurred prior to 1975, the study, in general, did not treat converted units as a separate phenomenon. However, an estimate was made of the number of condominium and cooperative conversions that had occurred between 1970 and 1975. 2/

The second, and most widely cited source of information on national conversion activity, is contained in occasional issues of *U.S. Housing Markets*, 3/ a publication of Citicorp, Inc. To arrive at its national estimates, Citicorp representatives regularly contact one or more knowledgeable persons in a limited number of major metropolitan areas and ask them to report on conversion activity

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1/ U.S., Department of Housing and Urban Development, *HUD Condominium Cooperative Study*, 3 vols., (Washington, D.C.: Government Printing Office, 1975).

2/ The 1975 estimate was based on HUD's 1974 Annual Housing Survey and information developed by HUD Area Offices. The latter were asked to determine conversion activity in their jurisdictions, but no standardized time frame was provided for the estimates. Consequently, the 1975 report first noted that the HUD Area Offices reported 60,000 conversions had occurred "in recent years." The report later expanded the figure to 125,000 condominium and cooperative conversions, but no explanation was offered for the second, higher figure. Although the exact time period covered by the 1975 estimate is not clear, it seems to be based on 1970 through 1974 data, with projections made from these data for 1975. In the course of the current study, it was estimated that only 85,000 units were converted to condominium or cooperative ownership between 1970 and 1975. One reason for the discrepancy between the two sets of figures may be the varying quality of the data provided by the HUD Area Offices and the difficulty of making national estimates from data collected locally without a consistent definition of "conversion." Another reason may be that approximately 20 percent of the conversions begun between 1970 and 1975 were never completed during the period. Economic conditions, particularly during the 1973-74 recession, caused a number of buildings planned for conversion to revert to rental when they could not be sold. Second attempts to convert some of these buildings were successful in the late 1970s when the economy improved.

3/ Advance Mortgage Corporation/Citicorp, Inc., *U.S. Housing Markets* (New York: Advance Mortgage Corporation/Citicorp, Inc., 1979-80).

within their particular housing market. In making their estimates, the contacts sometimes use local or state records or data collected by private market research firms, but also rely on their personal knowledge of the local housing market. The problems associated with these types of data gathering have been previously discussed. 4/

Since most conversion activity occurred after 1975, this report substantially updates the data contained in HUD's earlier report on conversions. In addition, the information presented in this report is for the entire country, rather than for selected metropolitan areas.

Constructing National Estimates

For purposes of this study, a property is considered converted if a single unit in a rental building or complex has been sold as a condominium. Establishing a definition of a cooperative conversion is somewhat more problematic because the vast majority of cooperative conversions occur in the State of New York where very specific requirements govern when a conversion can occur. Specifically, either 35 percent or 15 percent of the tenants must purchase, depending on whether tenants will be evicted as a result of conversion. 5/ Should the sponsor of the conversion fail to obtain purchase agreements from the required percentage of tenants, the conversion remains a rental. Therefore, in the State of New York, a cooperative conversion is considered to occur only when the necessary numbers of tenants have purchased. However, outside of New York, a building is considered converted to cooperative ownership if it has been legally established as a cooperative and if one share (representing one unit) has been sold. 6/ Using these definitions, a coordinated effort was undertaken to collect data on conversion activity throughout the country.

When this study was initiated in late 1979, available literature indicated that the majority of conversions occurred in or near the country's largest metropolitan areas. To ensure that all units converted were counted, incorporated cities, towns and villages

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4/ In addition, Citicorp's figures are subject to revision. For example, one Citicorp report noted that conversions in 1980 would be similar to the 1979 level of conversions which was previously set at 145,000 units. A subsequent report projected at least 100,000 units would be converted in 1980. For further details, see Appendix 2.

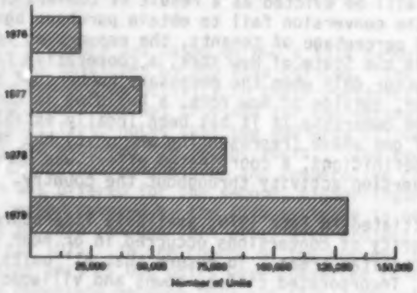
5/ For a more complete explanation of these regulations, see chapter XI.

6/ For the purpose of estimating the number of rental units converted to condominiums and cooperatives, a building is not considered converted if it has never been occupied as a rental or if it was previously nonresidential.

as well as counties and unincorporated jurisdictions within the 37 largest SMSAs were canvassed to determine how many units had been converted since 1970. 7/ Data for areas outside these 37 SMSAs were collected on a sample basis in such a way that when combined with information from the 37 SMSAs, reliable generalizations could be made to the entire country. 8/ (Additional details on the data collection procedures are contained in chapter II and Appendix 2.)

The Volume of Conversion Activity: 1970-1979

Throughout the country, approximately 366,000 rental units were converted to condominium or cooperative ownership between 1970 and 1979. (See tables IV-1 and IV-2.) Most of this activity occurred in the latter half of the 1970s. For the five years between 1970 and 1975, 86,000 rental units were converted. During the next four years, 280,000 units were converted, with dramatic increases occurring annually. Converted units totaled 20,000 in 1976; in 1977, they numbered 45,000; in 1978, the figure had reached 80,000; and by 1979, the total was 135,000 units.



7/ In 1977, the latest date for which SMSA population data are available, each of these 37 SMSAs had one million or more residents.

8/ Local data sources were used in every area of the country. However, it was frequently necessary to cross-check private and public data sources, to follow up on individual buildings or complexes, and to do additional tracking. When it was impossible to refine or redefine local data to correspond with the definition used in this study, local figures which closely approximated the definition were used. Appendix 2 describes in detail the methods and procedures used to obtain these data.

TABLE IV-1

CONDOMINIUM AND COOPERATIVE CONVERSIONS AND PERCENT OF OCCUPIED RENTAL UNITS CONVERTED, BY LOCATION: 1970-1979

	1970-75	1976	1977	1978	3 Quarters of 1979	Total 1970-79	Total 1977-79	Total 1970-79 Percentage	Total 1977-79 Percentag
Total U.S.	85,746	19,976	45,527	80,334	114,493	346,476	240,754	100.0	100.0
Condominium	82,540	19,452	43,546	74,462	108,370	328,370	226,378	94.8	94.0
Cooperative	3,206	524	1,981	5,872	6,523	18,106	14,376	5.2	6.0
37 Largest Metro Areas									
12 High Conversion Activity SMSAs	55,916	10,679	31,670	50,886	54,346	203,497	136,902	58.7	56.9
Condominium	54,099	10,175	30,050	45,521	48,108	187,953	123,679	54.2	51.4
Cooperative	1,817	504	1,620	5,365	6,238	15,544	13,223	4.5	5.5
Remaining 25 SMSAs	14,308	3,408	8,761	14,996	20,221	61,694	43,978	17.8	18.3
Condominium	13,188	3,408	8,441	14,509	20,084	59,630	43,034	17.2	17.9
Cooperative	1,120	0	320	487	137	2,064	944	0.6	0.4
Balance of U.S.	15,522	5,889	5,096	14,452	40,326 2/	81,286	59,874	23.6	24.9
Condominium	15,253	5,869	5,055	14,432	40,178	80,778	59,656	22.3	24.8
Cooperative	269	20	41	20	148	498	209	0.2	0.1
Percent Rental Converted, Total U.S.	0.32	0.08	0.17	0.30	0.43	1.31	0.91		
Percent Rental Converted 12 High Activity SMSAs 1/	0.75	0.14	0.42	0.68	0.72	2.71	1.83		
Percent Rental Converted 25 Moderate Activity SMSAs 3/	0.30	0.07	0.18	0.32	0.43	1.30	0.93		
Percent Rental Converted Balance of U.S. 4/	0.11	0.04	0.04	0.10	0.28	0.57	0.42		

1/ The 12 SMSAs accounted for 28.3 percent of U.S. occupied rentals in the 1977 Annual Housing Survey.

2/ For all 12 months of 1979.

3/ The 25 SMSAs accounted for 17.9 percent of U.S. occupied rentals in the 1977 Annual Housing Survey.

4/ The balance of the U.S. accounted for 53.8 percent of U.S. occupied rental in 1977, by subtraction.

TABLE IV-2

PERCENT OF OCCUPIED RENTAL HOUSING UNITS CONVERTED TO CONDOMINIUM AND COOPERATIVE OWNERSHIP BETWEEN 1970 and 1979

Location	Total Percent Rentals Converted	SMSA Central City	SMSA Non-Central City
Total United States	1.31	N/A	N/A
37 Largest SMSAs	2.22	1.86 1/	2.67 2/ 3/
12 High Activity SMSAs	2.71	2.10	3.76 3/
Boston	2.37	2.20	2.46
Chicago	6.75	5.37	9.30
Denver-Boulder	6.96	8.79 4/	5.19
Houston	5.38	7.27	0 5/
Los Angeles-Long Beach	0.64	0.30	1.04
Miami	1.46	1.33	1.63
Minneapolis-St. Paul	3.42	1.41	6.25
New York City	0.72	0.58	1.55
San Francisco-Oakland	1.39	0.51	2.19
Seattle-Everett	2.00	1.29	3.92
Tampa-St. Petersburg	N/A	3.26 6/	N/A
Washington, D.C.	7.73	6.86	8.22
Remaining 25 SMSAs	1.30	1.27 1/	1.33 2/
Balance of United States	0.57	N/A	N/A

1/ Denominator inclues units in Nassau and Suffolk counties, New York.

2/ Not included in the denominator are rental units in suburbs of the Hartford, San Antonio and San Jose SMSAs, or Nassau and Suffolk counties.

3/ Denominator does not include rental units outside of the central city for the Tampa-St. Petersburg SMSA.

4/ Boulder's share of rental housing is based on HUD Housing Assistance Plan estimates of the total amount of rental occupied housing in 1978.

5/ Negligible amount of suburban conversions.

6/ There was no SMSA Annual Housing Survey for Tampa-St. Petersburg. The SMSA central city percentage is based onthe city's Housing Assistance Plan estimates of the total amount ofrental occupied housing in 1978.

Condominium conversions far exceed cooperative conversions. Most converted cooperative units are located in the metropolitan areas of New York City, Washington, D.C., and San Francisco-Oakland. Seventy percent of the cooperative conversion activity nationally took place in the New York City SMSA. During the entire decade, 18,000 units were converted to cooperative ownership, which represents only 7 percent of all conversion activity.

Although condominium and cooperative conversion activity has been relatively concentrated in and around the 37 largest SMSAs, some evidence suggests that the phenomenon may be spreading to or increasing in smaller metropolitan areas. Past concentration is evident from the fact that 76 percent of the conversions undertaken in the 1970s occurred in the Nation's 37 largest SMSAs. Broken down further, 59 percent of all conversions took place in 12 of the 37 SMSAs, while the Chicago and Washington, D.C. SMSAs together accounted for 31 percent of all activity. In the Chicago SMSA, this amounted to 70,000 units (20 percent of the U.S. total), and in Washington it totaled 39,000 units (11 percent of national activity).

In the other 25 SMSAs, over 61,000 units were converted. This figure accounts for 18 percent of all conversions carried out from 1970 to 1979. In the remaining parts of the country, 81,000 units (or 23 percent of the national total) were converted during the same time.

In this regard, a trend appears to be emerging. Between 1970 and 1976, 63 percent of all converted units were located in the 12 high activity metropolitan areas; this proportion fell slightly to 57 percent between 1977 and 1979. Concurrently, during the 1970 to 1976 period, 20 percent of all conversions occurred outside the 37 largest SMSAs. By the 1977 to 1979 period, this proportion rose slightly to 25 percent. These shifts are not substantial, yet they do suggest a dispersal of activity from the largest metropolitan areas to other locations. This trend has been gathering strength recently: nearly half of all conversions in areas outside the 37 largest SMSAs occurred in 1979, a sharp expansion in a very short time.

City and Suburban Conversion Activity. Between 1970 and 1979, the country's 37 largest SMSAs experienced 248,000 condominium conversions. Central cities accounted for 49 percent (121,000 units) of these conversions, while 51 percent (127,000 units) occurred in suburban jurisdictions. It appears that condominium conversion activity is a larger element in suburban housing markets than most observers had believed.

A number of SMSAs approximate this nearly even split between central city and suburban conversions. Among these are the Chicago, Pittsburgh, Atlanta, Baltimore, Milwaukee, and Miami SMSAs. Metropolitan areas where suburban conversions are much higher than those in central cities include include Minneapolis-St. Paul, Hartford, Los Angeles-Long Beach, Detroit, San Francisco, Cleveland, and Washington, D.C.

On the other hand, central city conversions far outweigh suburban activity in the Denver-Boulder, San Diego, Dallas-Fort Worth, San Antonio, and Houston SMSAs. The jurisdictional pattern in the Texas SMSAs is due primarily to the state's liberal annexation policies which have allowed central cities to grow to such an extent that there are few densely populated noncentral city areas.

Conversions as a Proportion of the Rental Housing Supply. The proportion of the Nation's total rental stock which has been converted to condominium or cooperative ownership is, to this point, very low, but there is wide variation among localities.

Conversions between 1970 and 1979 represented 1.31 percent of all occupied rental housing units in the United States in 1977. 9/ Most of this activity (69%) occurred during the last three years of the decade, reflecting the accelerated pace of conversions since 1977. (Table IV-1 presents a detailed breakdown of the proportion of the rental stock which was converted during the 1970-1979 period.)

Conversion proportions range from 2.71 percent in the 12 high activity SMSAs to .57 percent in the part of the country outside of the 37 largest SMSAs (Table IV-2). Among the 12 high activity SMSAs, there are considerable differences across metropolitan areas and between central city and non-central city locations. For example, in the New York City and Los Angeles SMSAs, one percent of all rental units were converted during the 1970s, compared to eight percent in the Washington, D.C. SMSA. When considering only central cities, the conversion proportion was nine percent for Denver-Boulder, seven percent for Houston and Washington, D.C. and six percent for Chicago. Among suburban areas, the highest percentages of conversion are in the Chicago (9%), Washington, D.C. (8%), Minneapolis-St. Paul (6%), and Denver-Boulder (5%) SMSAs.

While these examples highlight variations among the suburban areas of SMSAs taken collectively, there is also variation among the specific suburban communities in any one SMSA.

> In Walnut Creek, California, an outlying suburb of Oakland, 18 percent of the city's rental stock has been converted since 1973 and most has occurred in 1979.

9/ U.S. Bureau of Census, Annual Housing Survey, Part A, Series H-150-77. If the 1970-79 conversions are calculated as a percent of all units in rental buildings of five or more units, 3.56 percent of the units have been converted. The figure 1.31 percent is based on all occupied rental units, including single family homes and units in buildings with less than 5 units.

> In Connecticut, a report by the State Department of Housing indicates that one community had 60 units converted, but this was 36 percent of its total rental stock. Another community had 328 units in the process of being converted, constituting 29 percent of its rental supply.

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Between 1970 and 1979, 366,000 rental housing units were converted to condominium or cooperative ownership. Conversions have occurred most frequently in 12 large SMSAs, but there are indications that conversion activity is expanding to other, sometimes smaller metropolitan areas.

Conversion activity has had only a slight impact on the Nation's overall rental housing supply. Units converted between 1970 and 1979 represent 1.31 percent of the country's occupied rental housing, but 2.71 percent of the aggregate rental supply in the 12 areas with the highest level of activity. Specific cities, however, have experienced higher proportions of conversion, with Denver-Boulder, Chicago, Houston, and Washington, D.C. each having conversion proportions exceeding five percent. There are also a few smaller cities and neighborhoods within cities which have experienced higher levels of conversion actvity.

Chapter V

Factors that Drive Conversion: Housing Supply, Market Conditions, and Ownership Demand

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Growing numbers of condominium and cooperative conversions within certain housing markets reflect the interplay and changing character of the demand and supply relationships that exist within those markets. The number of conversions that occur and their effects on the rental housing supply depend on factors such as the sources, types, and ultimate disposition of rental units that are converted, and the types of households which buy them.

Alternative explanations have been put forth by researchers, market analysts, local observers and public officials to explain the conversion phenomenon. Some have emphasized, exclusively, supply and market characteristics, demand forces, or financial conditions as having the most significant direct bearing on conversions. This chapter systematically and empirically examines and begins to sort out these various factors in order to understand better the forces that drive the conversion of rental housing to condominiums and cooperatives.

Two Views of Why Conversions Occur. Two distinct lines of argument have been advanced to explain why and where conversions occur. One is that conversions are products of distressed rental markets, in which landlords sell for conversion as a response to declining profitability. 1/ On the demand side, rental market distress would be evidenced by slow growth or decline in population or the rate of new household formation, lack of competition for available units and net out-migration of population. On the supply side, distress would be indicated by a combination of high rental vacancy rates, depressed rent levels, low rates of new rental construction, and high rates of rental losses from inventory.

Another explanation for conversions is that they respond to a strong and growing demand for ownership produced largely by rapid inflation. Strong demand and inflation tend to price traditional single-family homes beyond the reach of some new, younger households and other middle-income people who would otherwise be in the market. On the demand side, evidence of growing preferences for ownership would include strong sales of single-family homes, as well as condominiums, and relatively low

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1/ The concept of profitability here refers both to current cash flow and to net return on investment. Further discussion of these concepts is provided in a later section of this chapter.

vacancy rates in certain neighborhoods or communities. A large pool of younger, relatively more affluent renter households might indicate that an area has great potential demand for multi-family ownership, including ownership of converted properties. On the supply side, strong ownership demand would be reflected by relatively high levels of new construction of both single-family homes and condominiums.

Prevailing Views of Why Conversions Occur

- **Distressed Rental Markets**
- **Strong Demand for Ownership**

These two views of why conversions occur can be reconciled in either of two ways. First, it is possible that, within the same market, rental properties are beginning to experience decreasing cash flow which, if trends continue, could lead to distress. Decreasing cash flows result from relatively greater increases in operating costs compared to rental incomes. In these same markets, however, ownership demand can be growing. Thus, conversions both allow the property owner to obtain a significant return on investment (by selling to a converter) and a shift in the use of the existing housing supply to meet a shift in housing demand. Second, it is possible that, within a given market, both explanations are important but at different stages in the growth of the conversion phenomenon. It is, for instance, plausible that overbuilding of rental properties produces distressed rental conditions that stimulate a first wave of conversions or that induce property owners to seek ways of minimizing investments in rental properties. Subsequently, rising ownership demand could account for continuing conversions even as rental markets tighten. 2/

2/ The unit of analysis in this chapter is an SMSA-wide housing market. The chapter does not concentrate on the characteristics of specific buildings or on buildings actually converted but, rather, describes the housing markets within which conversions are occurring. The following types of data are employed here: the views of housing market experts in the 37 largest U.S. metropolitan areas (SMSAs); results of a survey of 443 public officials in local jurisdictions across the nation; and other data on supply, demand, and market variables in the 37 SMSAs. These data are drawn from such sources as the Annual Housing Survey and the Housing Assistance Plans prepared by cities in connection with their Community Development Block Grant applications.

The analysis below represents the first step in sorting out the available data in order to address the two views of why conversions occur. Various supply and demand characteristics are examined to determine what relationships, if any, exist between them and levels of conversions, including: (1) housing stock characteristics, such as the rental proportion of the total housing stock, the age of the multi-family stock, multi-family building sizes, rents, and prices; (2) new housing construction; (3) removals from an area's housing inventory; (4) rental vacancy rates; (5) rent levels; (6) rent regulation; (7) rental operating margins and profitability; (8) financial conditions, including interest rates and mortgage fund availability; and (9) household characteristics. 3/ As will be evident, the analysis suggests that conversions are associated with strong housing markets characterized by increasing demand for homeownership. Although the most visible cause of conversion is the profit realized by rental property owners and by converters, the availability of households willing to buy converted units represents the most direct cause of conversion.

Housing Market Conditions and Housing Stock Characteristics

The character of an SMSA's housing market and its housing stock may partially determine the amount of conversion activity which takes place within it. The characteristics discussed below are intended to describe the SMSAs in which conversions are occurring and to shed light on those characteristics of the housing markets and housing stocks that may indicate increased conversion activity. This section

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3/ Although most available data are at a metropolitan level, some of the posited relationships between housing supply characteristics and conversion levels are likely to be stronger at a neighborhood or community level, while others are likely to be stronger at a metropolitan or SMSA-wide level. Unfortunately, little or no uniform data on neighborhood or community housing market characteristics are gathered between U.S. Censuses and, therefore, the following analyses may not point up certain relationships that exist at the community or neighborhood level. The most recent Census data are ten years old and, consequently, not considered reliable for this analytic purpose. Unless otherwise noted, therefore, the relationships described in this chapter are at a metropolitan level. While these factors are discussed separately, they are interrelated in many ways. For example, the profits to be made by owners of rental properties by selling to converters, as one posited cause of conversions, are related to the tax benefits that are associated with the demand for homeownership, another posited cause of conversions. It is, in fact, the combination of such factors that produces a given level of conversion activity. These interrelationships are examined in the chapter's concluding section.

addresses the two views of why conversions occur by focusing on those conditions and characteristics that determine relatively strong or distressed housing markets.

New Housing Construction. Converted condominiums compete for home buyers' dollars with newly-constructed condominiums and single-family homes. Therefore, the level of such new construction in a metropolitan area may influence the volume of conversion activity. If single-family construction is insufficient to meet total ownership demand, or is not responsive to the nature of demand (vis-a-vis the types of units desired), or is distant from locations where many want to purchase, there may be increased demand for converted units. There is some degree of direct competition between conversions and new single-family construction, especially in a few of the more rapidly growing, less densely populated western and southern SMSAs. There is even more direct competition in most metropolitan areas between converted and newly constructed condominiums.

Market Conditions That May Determine Conversion Levels

- New Multi-Family Construction
- New Single-Family Construction
- Cost of Single-Family Units
- Removals From Inventory

New rental construction may also influence the level of conversion activity, as well as ameliorate the impact of conversions on the rental housing market. New multi-family rental construction may provide rental opportunities for persons moving out of conversions and also provide a new source for potential conversions in the future. Some analysts argue that conversion will be more frequent in those places where more multi-family building is occurring. The overall strength of the investment market is seen as the controlling factor, as both converters and investors in new multi-family properties perceive the market to have sufficient strength to generate acceptable returns. In fact, it is asserted that some new rentals may be constructed with the intent to convert after a relatively brief period. 4/ Other experts argue, however, that conversion may be greater in places where there is greater disinvestment in multi-

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4/ See U. S. General Accounting Office, Rental Housing: A National Problem That Needs Immediate Attention (Washington, D.C.: General Accounting Office, 1979), p. 18; and Donald H. Haider, "Economics, Housing, and Condominium Development," in The Economics of Condominium Development (Chicago: Center for Urban Affairs, Northwestern University, December 1979).

family housing. In these areas, insufficient returns on multi-family investment could influence current owners to divest as well as discourage new investment. The corollary to this argument is that higher levels of new rental construction will soften ownership demand (for converted units) and result in a negative relationship between new rental construction and conversion activity.

There is a positive relationship across SMSAs between the level of new single-family construction and the amount of conversion activity. (See table V-1.) This means that as the level of new single-family construction increases, so do the number of conversions. This relationship may be, in part, a function of the relative rates of growth in metropolitan areas. Those areas experiencing high levels of both new, single-family construction and conversions may be those areas that are also experiencing growth in the rate of new household formation. In this sense, construction activity and conversions may be supply-side responses to increases in the demand for housing. Important also is that the relationship does not hold inside the central cities where the level of single family construction can be expected to be low. The SMSA-wide relationship, however, provides evidence that conversions are associated with strong, active housing markets.

New multi-family construction statistics combine both new condominiums and new rental construction. Although nationally, the bulk of new multifamily units are initially rented rather than sold 5/, in some SMSAs new construction of condominium units represents a fairly large share of new multi-family construction. For example, in the Miami SMSA, 20 percent of the multi-family units built since 1970 were intended for condominium or cooperative ownership. In the New York City suburbs, 30 percent of the multi-family units built since the 1970s are owner-occupied.

There is reason to believe that direct competition from new condominium construction influences conversion activity levels. Local public officials in jurisdictions experiencing conversions since 1970 were asked to identify which of several factors accounted for observed

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5/ In 1978, about 15 percent of all newly constructed apartment units in buildings of five or more units were offered for sale as condominiums or cooperatives. About four-fifths of these were built in the South and the West. See "Market Absorptions of Apartments; Annual 1979 Absorptions," Current Housing Reports (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census, April 1980). At present, little construction of any type of multi-family housing is occurring.

TABLE V-1

MEASURES OF ASSOCIATION BETWEEN CONVERSION LEVELS AND SELECTED MARKET CONDITIONS AND CHARACTERISTICS 1/

Characteristic	SMSA	Central City	Outside Central City
1970 Population	.590	N/A	N/A
1977 Population	.619	N/A	N/A
Change in Population	.357	N/A	N/A
Net In-migration	.302	N/A	N/A
Median Rent, 1975	.329	N/A	N/A
Median Rent, 1980	.260	N/A	N/A
Multi-family Const., 1976	.368	.362	.423
Multi-family Const., 1977	.330	.326	.266
Multi-family Const., 1978	*	.337	*
Three Year Average Const.	.309	.352	.270
Single-family Const., 1976	.512	*	.575
Single-family Const., 1978	.282	*	.301
Three Year Average Const.	.372	*	.412
Value/SF Permit, 1976	*	*	*
Value/SF Permit, 1978	*	*	*

Source: Bureau of the Census, 1970 Census of Population (Washington, D.C.: U.S. Department of Commerce); U.S. Department of Housing and Urban Development, Annual Housing Survey: 1974, 1975, 1976 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census); Bureau of the Census, Housing Authorized by Building Permits and Public Contracts, Construction Reports C40-76-13, C40, 77-13, (Washington, D.C.: U.S. Department of Commerce, 1977, 1978, 1979).

1/ The table values are Pearson correlation coefficients between the amount of conversion in 37 SMSAs (between 1977 and 1979) and the absolute value of the selected characteristics. Each coefficient is significant at least at the .10 level. Most are significant at .05.

N/A = Not available

* = Insignificant coefficient.

year-to-year decreases in conversion activity. A majority said that competition from new condominium construction had accounted for these decreases -- more than those who named any other single factor. 6/ It could be expected, therefore, that in some jurisdictions, new condominium construction decreases the amount of conversion activity.

At the metropolitan level, there is a significant relationship between 1977-79 conversion volume and new multi-family construction from 1976 through 1978. (See table V-1.) Most of the SMSAs with the greatest amount of conversion are the same places with the greatest amount of new multi-family construction in the very recent past. 7/ These SMSAs appear to have recovered more quickly from the general overbuilding that existed in the early 1970s indicating that the housing markets in these places are relatively strong.

The latest data available indicate that new multi-family housing starts have diminished sharply and it is estimated that starts will remain low through 1980. Estimates of new, unsubsidized rental starts for all of 1980 range between 100,000 and 120,000 units -- roughly a 50 percent decrease over 1979 starts, and single-family construction has decreased sharply in the first quarter of 1980. At the same time, conversion levels have fallen dramatically. 8/ This is further evidence that condominium conversion and new construction respond similarly to varying market conditions, and that both construction and conversion rates may be proxies for, or symptomatic of, increasing demands for housing in relatively strong housing markets.

6/ Department of Housing and Urban Development, Telephone Survey of 443 Local Officials, February 1980.

7/ The proportion of new construction in these SMSAs which is Federally supported is unknown. There is evidence to suggest that Federally subsidized programs using conventional financing replace private sector investments in similar housing; see Rochelle L. Stanfield, "HUD Gets More Money for Housing -- But is it Enough for the Poor?" National Journal 12 (March 1, 1980), p. 360. If this is the case, private sector funds may be freed for other investment, including conversion. The relationship reported here is a comparison of one absolute number (the level of conversion) with another absolute number (the level of multi-family construction). Other relationships examine proportions such as the percent of households that are renters or the percent of all multi-family buildings with at least 20 units. In these cases, the conversion variable is given as a percent of the total multi-family housing stock.

8/ See "Unsubsidized Rental Starts to Drop 50%," Housing and Urban Affairs Daily 74 (March 28, 1980), p. 155; and U.S. Housing Markets (New York: Citicorp/Advance Mortgage Corporation, March 1980).

The Cost of New Construction. Many developers and market analysts believe that prices of single-family houses have risen beyond the means of many households and that this explains a significant portion of the conversion phenomenon. Developers have found that single-family units are now too expensive for many who desire to own and that converted condominiums can meet homeownership demand at a lower price than either new single-family houses or newly constructed condominiums. The issue, therefore, is the degree to which the rising price of single-family housing has shifted both development and demand toward condominiums and cooperatives -- especially those converted from rentals.

Between 80 and 90 percent of local public officials representing jurisdictions where at least some conversion activity has occurred attribute increases in local conversion volume to the increasing price of single-family housing in their localities. 9/ This suggests that the level of condominium conversion may be higher in those metropolitan areas with higher or more rapidly rising single-family prices. In fact, across the 37 largest SMSAs, this does not appear to be the case. (See table V-1.) The available data show that rising single-family prices during the 1976-1978 period are not associated with rising levels of conversions in the same period. (See table V-1 App. for construction and cost data.) It appears, therefore, that converted condominiums are meeting the homeownership demands of a segment of the population that is not in the single-family market and that converted units are not substitutes for single-family homes.

Removals from Inventory. Removals from the housing inventory involve such actions as abandonment, the boarding up of structures, demolition, disaster losses, changes to non-residential use, or taking units off the market for any purpose. 10/ These removals may be related to conversions in several respects. On the one hand, the conversion option may provide incentives to apartment owners and investors to maintain properties for eventual conversion to condomi-

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9/ Those data are from the survey of local officials conducted for this study. The only other factor mentioned by so many officials as responsible for rising conversion volume is the opportunity for profit from conversion. More than 90 percent of officials who expect increased conversions between 1980 and 1985 in their jurisdictions believe increased single-family housing costs will be an important driving factor.

10/ Removals do not refer to conversions to ownership status or to physically moving a unit to another location. Some removals may return to the housing inventory at a later date, as when an apartment building first becomes a transient hotel and, later, a permanent residential facility.

niums or cooperatives. On the other hand, these incentives may apply only to buildings where occupancy rates are already high and where buildings are in fairly good shape. Those properties that are too expensive to rehabilitate, are not in choice locations, or are otherwise inappropriate for conversion may receive little or no additional maintenance or investment as a result of the conversion phenomenon. Thus, the potential for conversion profits may be reason for some, but not all, rental buildings to continue to be maintained rather than be lost to the rental inventory. 11/

The metropolitan areas with the highest volumes of conversion activity tend to be those with lower annual losses from inventory. (See table V-2 App.) This suggests that conversion is not a phenomenon associated with distressed rental housing markets, as indicated by relatively high rates of rental losses due to abandonment or demolition. 12/ Unfortunately, there are no data which can be used to determine rates of rental losses in the immediate neighborhoods where conversions are concentrated.

Rental Vacancy Rates. The combination of changes in total demand for, and total supply of, rental units in an area produces a change in the balance of rental supply and demand in that area. One indicator of this balance is the rental vacancy rate. 13/

11/ It is also possible that previous conversions will have a later, secondary impact on the rate of removals. This depends on (1) whether renters leave converted buildings to occupy units they would not have considered before, and (2) the extent to which converted unit buyers come from these and other rental buildings. As a result of the net shift in occupancy, some buildings which normally would continue to decay and be lost to the rental inventory may become more financially stable. See chapter VII for a full discussion of the impact of conversions on rental occupancy.

12/ Although there is widespread concern over the perceived decrease in rental stocks due to conversion, removals from the inventory due to abandonment, demolition, and other factors account for a greater total loss in at least 8 of the 12 SMSAs experiencing the greatest levels of conversion through the 1970s. In the other four SMSAs, new multi-family construction has led to net increases in the rental stock that numerically overshadow the losses due to conversion.

13/ The rental vacancy rate by itself is sometimes unreliable as an indicator of supply-demand balance. Turnover rate, i.e., the rate at which rental units are occupied by new households, provides a useful, though often unavailable, supplementary indicator of the balance of supply and demand. The duration of vacancies is also a useful supplementary indicator.

Conversion may be both a function of, and an influence on, rental vacancy rates. In the short run, high vacancy rates may produce depressed rent levels and operating margins which, in turn, stimulate some apartment owners to sell their properties for conversion. However, owners of these kinds of properties may not always find buyers -- especially converters. Many market experts and developers say that unsuccessful rental properties rarely make profitable conversions.

High vacancy rates signal potential builders of rental apartments that an oversupply exists, thus dampening new rental construction. In many metropolitan areas, overbuilding of rentals in the early-to-middle 1970s produced a substantial oversupply of units. However, a dropoff in new construction in the mid-1970s, combined with conversions toward the end of the decade and losses to the rental inventory through abandonment, has reversed the market picture in many areas which are now experiencing record low average vacancy rates. In these same areas, demand has grown in the recent past to support both new construction and conversions.

Other Market Conditions That May Determine Conversion Levels

- Vacancy Rates
- Rent Levels
- Rent Controls

Within a metropolitan area, vacancy rates may vary dramatically depending on the strength of demand at different income levels, renters' locational preferences, and changes in the supply of rentals in a particular neighborhood or community. Thus, conversions, can have a substantial effect on rental vacancy rates within a small area if many renters in the converting buildings move to other rental apartments within the immediate area.

Statistical evidence that conversions are concentrated in metropolitan areas with below-average rental vacancy rates should be interpreted cautiously. It may be that conversions are more likely to occur in areas where vacancy rates are already low for other reasons -- for instance, in prime residential areas where demand is high and supply fixed. Such conditions not only permit landlords to keep their buildings full and perhaps raise rents; they may also signal developers that a market exists for multi-unit ownership, thus triggering conversions. 14/ It appears that although high vacancy rates encourage apartment owners to sell properties either for conversion or continued rental operation by others, low vacancy rates indicate market conditions that favor sales of converted units, and are more likely, other things being equal, to interest converters.

There is no consistent relationship between vacancy rates and the proportion of the rental stock that has been converted across the 37 largest SMSAs. This means that on an SMSA-wide basis, levels of conversion may not be associated with either high or low vacancy rates. (See tables V-2 and V-2 App.) When central cities are categorized as having high, medium, or low conversion levels, however, those which had higher conversion rates from 1977 through 1979, had higher vacancy rates in the mid-1970s. Rental vacancy rates in these high conversion central cities have fallen, according to local estimates, to levels similar to those in cities with fewer conversions. 15/ As a result, by the late 1970s there was virtually no difference in average rental vacancy rates between central cities with high and low volumes of conversion activity. In Miami and Tampa/St. Petersburg, for example, vacancy rates in the late-1970s were above the national norm, but by 1979 they had plummeted to one percent. Conversions increased dramatically in those cities at almost the same time.

Local public officials in just under 50 percent of jurisdictions with conversion activity since 1970 say that rental vacancy rates contributed importantly to increased conversions in their communities. 16/ These data again suggest that conversions are not concentrated in areas with distressed rental markets but, rather, in areas characterized by tightening rental markets and strong ownership demand.

14/ These conditions do not necessarily produce higher operating margins for rental properties. This is discussed more fully below.

15/ Estimates for late 1979 are from the most recently available Housing Assistance Plans prepared by cities in conjunction with their Community Development Block Grant applications. Estimates for the middle 1970s are from the 1974, 1975, and 1976 Annual Housing Surveys.

16/ About 18 percent of jurisdictions with some kind of local conversion ordinance have pegged conversion limitations to the rental vacancy rate. (See chapter XII.)

TABLE V-2

MEASURES OF ASSOCIATION BETWEEN THE PROPORTION OF RENTAL STOCK CONVERTED AND SELECTED MARKET CONDITIONS AND CHARACTERISTICS GIVEN AS PERCENTS OF ALL HOUSEHOLDS OR ALL MULTI-FAMILY UNITS 1/

Characteristic	SMSA	Central City	Outside Central City
Percent of households with 2 or fewer persons, 1970	*	*	*
Percent of households with 2 or fewer persons, 1975	.321	.241	.432
Change in percent, 1970-1975	.549	.313	.497
Percent of households with head less than 36 years, 1970 2/	.395	*	*
Percent of households with head less than 36 years, 1975 2/	.429	.302	*
Change in percent	.302	*	*
Percent of households with head less than 36 years, 1975 3/	.285	*	*
Percent of households with income off at least $25,000, 1975	.322	.349	*
Percent of households paying at least $250/month rent, 1975	.377	.416	.243
Renter-owner ratio, 1975	N/A	*	N/A
Renter-owner ratio, 1979	N/A	*	N/A
Vacancy rate 1975	*	*	*
Change in vacancy rate 1975-1979	*	*	*
Change in median rent, 1975-1980	*	N/A	N/A
Percent of building with at least 5 units	.440	.394	.505
Percent of building with at least 20 units	.443	.348	.596
Percent of buildings constructed since 1970	*	.414	*
Percent of buildings constructed since 1960	.383	.349	.367

Source: Bureau of the Census, 1970 Census of Housing (Washington, D.C.: U.S. Department of Commerce); Housing Assistance Plans for selected cities submitted with HUD Community Development Block Grant applications; 1979 Census of Population, op. cit.; Annual Housing Survey: 1974, 1975, 1976, op. cit.

1/ The table values are Pearson correlation coefficients between the proportions of the rental stock converted (between 1977-1979) and the selected characteristics. ach coefficient is significant at least at the .10 level. Most are significant at 05.

/ All Households.

/ Renter households only.

/A = Not Available. * = Insignificant coefficient.

However, the fact that some high conversion markets had slightly higher-than-average rental vacancy rates in the mid-1970s may indicate that overbuilding of rentals played a role in the initial conversions in those areas.

It is also helpful to look at the relationship of conversion to variations in vacancy rates within metropolitan areas and within central cities. It appears to many local market experts and other observers that the neighborhoods where most conversions occur have vacancy rates at or below the citywide or metropolitan averages.

> In Atlanta, for example, vacancy rates are lowest in the area north of the central business district where virtually all of the city's conversions have occurred.
>
> Similarly, in San Diego, Orange County (California), Phoenix, and Chicago, conversions have been concentrated in areas with below-average rental vacancy rates.

Because vacancy rates are likely to influence rent levels and, in turn, the operating margins of rental properties, an examination of how the latter relate to conversion volume will shed additional light on the relationship between vacancy rates and levels of conversion activity.

Rent Levels. According to many observers, rent increases have not kept pace with the rise in the costs of operating rentals. As both inflation and real dollar increases in income continue, more households seek to become homeowners, in part, to take advantage of tax benefits. Those that remain as renters are often less able to support the higher rent schedules necessary to cover rapidly increasing operating costs. The median income for owner households rose by 143 percent between 1974 and 1979 while median income for renters rose by only 127 percent. The median owner income in 1979 was almost double the renter median. Many rental property owners maintain that these conditions prevent them from passing along to tenants the increasing differences between costs and rental income. 17/ The supply side consideration here is the extent to which depressed rent levels have induced rental property owners to disinvest, either by walking away, selling to other operators, or selling for conversions.

If depressed rent levels are one stimulus to conversion, then cities or metropolitan areas which have experienced higher volumes of conversion should have lower average rent levels than cities or SMSAs with lower levels of conversion activity. However, the data show just the opposite pattern across SMSAs. (See tables V-1, V-2, and V-2 App.) Interestingly, those metropolitan areas with higher volumes of conversion from 1977 to 1979 appear to have higher median gross rents both in the mid-1970s and in 1980 than metropolitan areas with fewer conversions. 18/ None of the 12 SMSAs experiencing the greatest volumes of conversion through 1979 were below the national median rent level for unsubsidized units in the mid-1970s. 19/

17/ Using 1967 as a base year, the Congressional Research Service of the Library of Congress shows that by 1979, fuel and oil costs rose by over 350 percent and gas and electricity costs by 179 percent; in contrast, residential rents rose only 79 percent. See E. Richard Bourdon, "Condominium Conversions; Possible Changes in Federal Tax Laws to Discourage Conversions and Assist Rental Housing" (Washington: Congressional Research Service, 1980). See also W. Paul O'Mara, "The Future of Rental Housing", Urban Land (December 1979), p. 19. Other analysts offer evidence indicating that, because rents ave risen less rapidly than other consumer price index components, enters in at least one SMSA are voluntarily contributing larger hares of their incomes for rent in order to purchase better housing. f. John Kain, et al. "Condominium Conversion in Massachusetts: An valuation of its Benefits and Costs," unpublished document, April 980, pp. 88-92.

8/ Most of the 37 largest SMSAs had median rent levels above the ational median during this period.

9/ In a recently completed national survey of 600 managers of multi- amily properties, almost 30 percent of the units in the survey renting or at least $400 per month were being considered for conversion, mpared to 24 percent of the units renting for between $300 and 99; 14 percent of units between $200 and $299; and 7 percent of its renting for less than $200 per month. The percentage distri- tion for units in the suburbs was similar but the sample size is o small for generalizeability. The survey was conducted for HUD the Survey Research Center, University of Michigan, Ann Arbor, chigan. The findings support the conclusion that conversions are sociated with both relatively strong housing markets and buildings nting at above average levels.

To Recap. Combining this information with the previous discussion of rental vacancy rates, it appears that conversions are not a phenomenon of soft housing market areas where rental vacancies are high and rent levels are depressed. Rather, conversions seem to be associated with healthy, perhaps tightening rental markets characterized by strong demands for homeownership and by higher-than-average rent levels.

Rent Regulation. Rent control and milder forms of government rent regulations are commonly included on the list of factors contributing to depressed rent levels and, thus, to lower operating margins for rental properties and to owners' desire to sell. Even the possibility of future rent control is said to discourage new rental construction and to make landlords reluctant to raise rents at rates necessary to maintain operating margins. 20/ One consequence of rent control or the fear of future rent control may be heightened willingness of apartment owners to sell their buildings for conversion.

20/ Thomas R. Harter, "Rent Controls Forcing Condo Conversion; The Mortgage Banker 39 (July 1979) p. 46. For additional arguments concerning possible negative effects of rent control, see George Sternlieb, The Urban Housing Dilemma (New York: City of New York Housing and Development Administration, 1972); Department of Economics and Research, National Association of Realtors, Rent Control: A Non-Solution (Chicago: The Association, 1977); Cogen, Holt and Associates, Housing and Local Government: An Evaluation of Policy-Related Research in the Field of Municipal Housing Services (New Haven: Cogen, Holt and Associates, 1975); Jeffrey Palmer, The Effect of Rent Control on New Construction (Philadelphia, 1977); University of Southern California, Center for the Study of Financial Institutions, Rent Control: A Survey of the Theoretical and Empirical Findings, (October 1977); Urban Land Institute, New Housing Production in the District of Columbia: Toward Possible Solutions to a Public Policy Dilemma (Washington: Federal City Council, 1975). Other analysts take a more positive view of rent controls and their effects. For example, see John Gilderbloom, The Impact of Moderate Rent Control in the United States: A Review and Critique of the Literature (Sacramento: Department of Housing and Community Development, 1978); Emily P. Achtenberg, "The Social Utility of Rent Control," Housing Urban America, John Pynoos, Robert Schafer, and Chester W. Hartman, eds. (Chicago: Aldine Publishing Company, 1973), 434-447; Monica R. Lett, "Rent Control: The Potential for Equity," American Real Estate and Urban Economics Association Journal 4 (Spring 1976), p. 57-81; and Community Research and Publications Group, Less Rent, More Control in Massachusetts: A Tenant's Guide to Rent Control in Massachusetts (Cambridge: Urban Planning Aid, Inc., 1973). See also unpublished document, Report of the Temporary State Commission on Rental Housing, New York State Temporary Commission on Rental Housing, August 15, 1979.

Only seven of the 37 largest SMSAs include jurisdictions which have enacted some form of rent control. These are the Boston, Los Angeles, Newark, New York City, San Francisco, San Jose, and Washington, D.C., metropolitan areas. On a national scale, less than seven percent of local officials in jurisdictions with some conversion activity reported enactment of local rent control measures.

Relationship of Market Conditions to Conversion

	Relationship		
	Positive	Variable	None
New MF Const.	✓		
New SF Const.	✓		
Cost of SF Unit			✓
Removals	✓		
Vacancy Rates		✓	
Rent Levels	✓		
Rent Controls			✓

Because of the small number of jurisdictions with any type of rent control and given the variations in local regulation, it is not possible to establish a statistical association between such controls and conversion volume. Some of the jurisdictions which have enacted rent control -- such as New York, Boston, and Washington, DC -- are among those with the highest numbers of conversions. On the other hand, Chicago, which has by far the largest number of conversions of any city, has had no form of rent control. The same is true of other cities with high conversion volumes such as Denver and Houston. Interestingly only 10 percent of local government officials in communities wih rent control believe that rent control is an important factor in accounting for increases in local conversion activity. 21/ This is in contrast, for instance, to the overwhelming majority of these officials who see the declining profitability of rental properties as a major cause of conversion in their jurisdictions.

21/ Telephone Survey of Local Officials, op. cit.

It may be concluded, therefore, that rent controls -- whatever their direct effects on rental operations -- are not necessary conditions or leading causes of condominium and cooperative conversions, if for no other reason than that so few of the jurisdictions with conversions have enacted such measures.

Operating Margins, Cash Flow, Profits, and Alternatives

There appears to be no question that rising operating costs, the surplus of relatively new luxury and middle-income apartments remaining in some markets as a result of overbuilding in the early to middle 1970s, strong ownership demand and other factors have combined to depress both components of the profitability equation for landlords -- cash flow and return on investment. More than three-fourths of local officials, representing communities with some converstion activity, attribute increased conversion in part to the reduced incentives for landlords to continue operating. Almost 90 percent of these officials say that opportunities for profit from conversion help to account for increased conversions in their jurisdictions. 22/

Profitability Is Major Concern of Property Owner. It Is Composed of

- Cash Flow (Current Income)
- Return on Investment

The Importance of These Components Varies by Housing Market

Apartment owners considering whether to sell their properties for conversion will compare the estimated short- and long-term returns from: (1) continuing rental operations; (2) sale of their buildings to another for rental operation; and (3) sale for conversion. In this regard, it is useful to distinguish between the operating margins of rental properties and the return to the apartment owner from the capital that is tied up in that property. In calculating profitability, it is necessary to consider not only the current and expected cash flow from the property -- including such variables as operating expenses, property taxes, and tax depreciation -- but also the other aspects of the owner's situation, including other sources of income that determine return on capital invested in the property. A rental property generating negative cash flow may be retained because it is

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22/ Ibid.

appreciating rapidly in market value or because it is used to shelter other taxable income. Also, a rental property generating a positive cash flow may be sold if the owner receives a purchase price significantly above the market price of the property as a rental.

In some markets, the first part of the equation, operating margins, does not appear to be an important stimulus for conversions, and in other markets it appears to be more controlling. A market expert in Chicago, for instance, noted that "better properties are converted first" and that "conversion never solves the problem of bad property." 23/ Similar comments were made by a New York analyst who claimed that the most profitable rentals were being converted there and that most were operating in the black prior to conversion. A Miami market expert also reported that most conversions in that area had been more profitable than the average rental property and that declining rental operating margins were of "no importance" in motivating owners to sell. In these markets, profitable rentals and successful conversions are suggestive of strong homeownership demand.

However, market experts in several other metropolitan areas claimed that declining operating margins were important in stimulating conversions in their areas. In Tampa/St. Petersburg, a real estate analyst reported that the "vast majority" of converted properties were just breaking even and that declining operating margins were a major motive for sales to converters. In Atlanta, some real estate experts went so far as to claim that none of the converted properties had been in the black. In Houston, a conversion specialist stated that all properties he had been involved with were very minimally in the black and that declining operating margins were a major motive to sell. In the Buffalo SMSA, two multi-family complexes converted after foreclosure that was induced by negative cash flow and vacancy problems. Finally, a San Diego real estate researcher described most converted properties there as having been more profitable than other area rentals "although many had current or expected cash flow problems."

Such evidence suggests that the degree to which distress, caused by a profit squeeze, drives the conversion process varies from one metropolitan area to another and even from building to building.

23/ The former owner of a "bad" property will have his/her problems solved on sale.

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In all cases, however, it is the greater market value of certain properties as condominiums or cooperatives than as rentals, that directly motivates the sale of rental property for conversion.

To Recap. All of this evidence suggests that conversion is more a sign of market strength and, more directly, a response to profit opportunities presented by healthy market conditions than to worsening operating margins or declining return on investment from rental operation. Although worsening operating margins are, in some markets, the most visible factor motivating the sale of rental properties for conversion, the greater market values of buildings when sold for conversion than when sold for continued rental operation appears to be of at least comparable importance. This increased market value is driven by strong homeownership demands and high rent levels. Rental vacancy rates do not appear to be associated with concentrations of conversion activity. Moreover, other evidence indicates that conversions are associated with relatively strong housing markets, as indicated by higher levels of new single-family and multi-family construction. Finally, the particular buildings, within markets, chosen for conversion have most often supported rents above the market average.

Other Characteristics. The last few factors to be discussed in this section concern market conditions and housing stock characteristics that some market experts have advanced as being associated with conversions. For example, some observers suggest that building age and the number of conversions are inversely related. 24/ The data provide partial corroboration (see table V-2). 25/ Across the 37 largest SMSAs, those places where multi-family properties less than 20 years old comprise a greater percentage of the total

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24/ Basically, the argument is that newer properties make more successful conversions, due to superior quality and less need for rehabilitation, (see chapter III.) The average age of an SMSA's rental buildings, therefore, may partially determine both the suitability of the rental stock for conversion and its attractiveness to buyers, thus influencing the amount of conversion activity that takes place.

25/ In other words, those SMSAs with newer rental stocks are somewhat more likely than other places to have high conversion volumes (See table V-2). Evidence presented elsewhere in this report suggests that, within SMSAs, conversions are concentrated in particular jurisdictions and neighborhoods and that, within these, newer properties are often converted first. Exceptions to this occur in areas where architecturally interesting older buildings are selected for conversion. This is particularly true in some northeastern states. In the National Survey of Managers conducted for HUD by the Survey Research Center, a greater percentage of units constructed between 1960 and 1969 were being considered for conversion than units built in the 1970s.

multi-family stock tend to have higher percentages of that stock converted.

Some market experts contend that small properties (with few units) rarely make profitable conversions. Economies of scale are said to produce a greater return on investment from larger building conversions. Therefore, the sizes of rental buildings in an SMSA should affect the volume of conversions in that area, and, in fact, this is the case. The higher the proportion of a metropolitan area's rental stock which is in larger buildings the greater the proportion of multi-family buildings converted in the 1977-1979 period (see table V-2 App.). 26/

Characteristics of the Housing Stock That May Determine Conversion Levels

- Renter/Owner Ratio
- Building Age
- Building Size
- Number of "Luxury" Buildings

Some housing specialists suggest that in those areas where rentals represent relatively larger shares of the total housing stock, there will be larger "pools" of households accustomed to multi-family living and, therefore, a higher potential demand for converted units. If this is correct, the metropolitan areas with higher renter-owner ratios should have more conversions, which, in fact, they do.

26/ Although the properties actually converted are, in large measure, above the median size for their metropolitan area, considerable variation in building sizes does exist. In Houston, over 80 percent of converted projects had 20 or more units. In Minneapolis, one-fourth of all converted buildings had fewer than five units. In Boston, many converted properties had less than ten units. These data suggest that no one size of building is necessarily more suited to conversion and that the sizes selected for conversion will vary depending on the nature of an area's housing stock and market conditions.

Within the central cities of these SMSAs, there is a positive relationship between the renter ratio in the mid-1970s and the absolute number of conversions in the 1977-1979 period: as the percentage of rentals in the stock increases, so does the number of conversions.

Finally, market experts and developers often argue that luxury buildings make the most successful conversions, since they are usually in good condition, in preferred locations, and can most easily satisfy demand induced by the tax advantages of homeownership. This should mean that conversions are likely to occur in greater volume in metropolitan areas with higher proportions of luxury buildings in their rental inventories. Across the 37 SMSAs, there is a positive relationship between the proportion of multi-family buildings converted in the 1977-1979 period and the proportion of luxury rentals in the housing stock, i.e., the 1974-76 percentage of renter households paying $250 or more for rent in 1974-1976 (see table V-2). In addition, the proportion of renter households earning $25,000 or more in the 1974-1975 period is also positively associated with conversions. Moreover, it was noted earlier that there is a consistent relationship, across the 37 largest SMSAs, between 1974-1975 SMSA-wide median rent levels and conversion (see page V-11). This suggests that conversions tend to occur with greater frequency in places where renters have higher-than-average incomes, where luxury rentals comprise relatively greater proportions of the rental stock, and where SMSA-wide rent levels are higher than elsewhere.

Relationship of Housing Stock Characteristics to Conversion

	Relationship		
	Positive	Variable	None
Rent/Own Ratio		✓	
Building Age	✓		
Building Size	✓		
Number of "Luxury" Buildings	✓		

To Recap. Available data confirm some but not all expectations regarding the relationship between housing stock characteristics and conversions. SMSAs with greater proportions of rental housing and SMSAs whose rental housing is in larger and higher rent buildings have had higher proportions of their rental stock converted.

Financial Conditions

Whatever relationship an area's housing stock and its housing market conditions have to conversion, the condition of, and changes in, the nation's financial markets can have important impacts on the extent and rate of condominium conversion. 27/ For instance, changes in the cost and availability of mortgage money to support the purchase of converted units can exert significant influence over conversions. Inflation, the interest rates charged on loans to converters for acquisition or rehabilitation, and expected appreciation are other examples of such financial influences. These financial considerations are discussed below from three perspectives: the converted unit buyer; the converter/developer; and the rental property owner.

The Unit Buyer. 28/ The interaction between money market conditions and conversions, from the unit buyer's perspective, is indirect and complex. In a vacuum, higher interest rates or a decline in the availability of mortgage money (perhaps as a result of usury ceilings) can result in a decreased demand for any particular unit type or a decrease in the supply of the unit type. It is more common, however, that interest rate changes and alterations in the supply of mortgage funds serve to change the competitive position of one unit type relative to others. Rising interest rates tend to make less expensive condominium units more attractive than single-family, detached units and converted condominium units may become attractive than new

Financial Conditions That May Affect Conversion Levels

- Inflation
- Interest Rate for Buyers
- Interest Rate for Converters
- Mortgage Fund Availability
- Asking Prices for Rentals

27/ When changes in money market conditions occur, they tend to affect all of the Nation's metropolitan housing markets similarly.

28/ Chapter VI discusses the composition of demand for converted condominiums. The financial considerations are discussed here because a major financial condition, interest rates, impacts on "supplies" of converted units in a manner similar to the impact on unit buyers.

condominiums by virtue of their lower cost, on average and therefore, by virtue of their lower mortgage requirements. In addition, rising interest rates are usually accompanied by stricter credit requirements and it may be that some homebuyers can qualify for a mortgage on a converted unit but not for a loan on more expensive shelter. Many homebuyers may be unable or unwilling to bear the higher burdens associated with more expensive housing. Interest rates could rise to a level where few, if any, homebuyers could qualify and demand would decline sharply.

The general availability of mortgage money, regardless of interest rates, tends to impact uniformly on all segments of the housing market and across all unit types. If mortgage money is not available, potential unit buyers will be affected regardless of whether they intend to buy a detached unit or a condominium. However, when mortgage funds are in short supply, lending institutions will increase downpayment requirements (to insure greater equity participation by the buyer) and under these conditions, less expensive, converted units may become more attractive since, if purchased, they would require lower front-end capital. Those at the lower end of the income scale will be more sensitive to changes, even small ones, in interest rates or in the availability of mortgage funds. Consequently, increased downpayment requirements may drive some potential unit buyers out of the market.

There is conflicting evidence on the actual impacts of rising interest rates and changes in the supply of mortgage funds on demand for converted condominiums. Most developers or market analysts indicated that in late 1979, the prevailing interest rates had not severely affected the sales of converted units (perhaps because many converters had secured end-loan packages) and many of these experts also predicted a decline in interest rates by Summer, 1980. In March 1980, these same observers indicated that condominium sales had either decreased considerably or were non-existent in some areas. Record high interest rates, ranging between 13 and 18 percent, were cited as the main cause of the slowdown. Condominium or cooperative resales were usually affected first and most sharply. Sales at the time of conversion were still doing well in other areas. [29] Some of the reasons for this may include the discounts offered to current tenants, which, in New York City, may be as high as 50 percent. [30]

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[29] See "Interest Rates Pose High Buyer Hurdle, "Professional Builder 45 (February 1980), p. 18.

[30] In other areas, discounts may be as high as 25 percent. See Daivd Sutter, "Getting Rich Quick in the Condo Market", Venture (August 1979), p. 50.

Additionally, some developers were either paying points themselves in order to increase unit closings (this reduces the effective interest cost to the buyer) or were financing part of the unit purchases themselves, through first or second mortgages. In many of these latter cases, the mortgages are for short terms and the developers expect that unit buyers will be able to qualify for conventional loans when the terms end. In addition, many converters secured end-loan package commitments prior to the very recent escalation in interest rates and, therefore, were able to offer a product whose "real" costs were below prevailing market rates.

Whatever the actual level of demand for converted condominiums and cooperatives, there is little doubt that it is driven by expected inflation (and a concomitant expected appreciation in property value), the unaffordable costs (to many) of single-family, detached units, and the desire for equity build-up in real estate -- all of which are demand related. 31/

Since the tax subsidy associated with homeownership serves to lower the "real" interest rate of homeownership and since inflation increases the marginal tax brackets of households, homeownership becomes more attractive, all else being equal. However, if the rate of inflation plus the real interest rate exceeds the mortgage rate, it is desirable to own regardless of the nominal interest rate. In fact, these conditions existed throughout 1979 and provided a significant, demand-driven impetus for conversions.

31/ In fact, it is probably the case that inflation greatly enhances the advantage of owning versus renting, and this may be one of the major reasons for conversion and demand for converted units. Since house prices move with inflation, houses become a good store of wealth, and keep the real purchasing power of wealth from falling. It is also the case that the tax system, inadvertently, stimulates the demand for homeownership.

Consider a world of zero inflation and a 6 percent mortgage interest rate. The mortgage interest payment on a $50,000 house with a 20 percent downpayment will be $2,400 per year. Then the total "cost" of ownership, so far, is $5,400.

But homeowners can deduct mortgage interest on Federal income tax returns. In the example, a homeowner in the 30 percent tax bracket would have an after-tax interest cost of only $1,680. To this, however, must be added the opportunity cost on equity investment, i.e., the $10,000 downpayment. If it is assumed that the homeowner could have earned 4 percent on equity (and would have paid tax on it), The Converter Developer. Changes in the money market affect converter/developers in many of the same ways as unit buyers. As the cost of money increases, the number of conversion projects undertaken will generally decrease. Also, as interest rates rise, lending institutions require either greater developer equity or a greater percentage of presales before granting acquisition, rehabilitation, or interim mortgege financing for conversion.

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the after-tax opportunity cost is (.7)(.04) ($10,000) or $280, making the total cost $1,680 + $280 + $3,000 or $4,960 per year. Since there is no inflation in the example, there are no offsetting expected capital gains.

Now, take the same situation but assume an inflation rate of 6 percent. It has been the case that interest rates have tended to move roughly, point for point with inflation, so that it is appropriate to assume mortgage rates to be 12 percent (the original 6 percent + 6 "inflation" percentage points) and opportunity cost on equity to be 10 percent. The after-tax mortgage interest cost of the $50,000 house will now be (.7) (.12) ($40,000) or $3,360; the equity cost will be (.7) (.10) ($10,000) or $700; and other costs will still be $3,000. But now the owner is expecting capital gains on the house and these are, in all likelihood, tax free. If the expectation is that house prices will grow at 6 percent, the homeowner will expect to "earn" $3,000 in capital gains. This must be deducted from other costs resulting in a net cost of $4,060 -- ($3,360 + $700 + $3,000 - $3,000). In other words, inflation leads to an actual reduction in ownership costs.

What this means is that a buyer will now be willing to pay a good deal more than $50,000 ($61,084 to be exact) for the same house in order to keep cost constant. That is, the anticipation of inflation will bid up house prices. Essentially, this is because inflation bids up interest rates, which are deducted at ordinary rates, but gives capital gains that are not taxed. The higher the inflation rate and the higher the tax bracket, the more the homeowner is willing to pay.

Landlords, however, are not taxed in the same manner as homeowners. They do get the benefit of deducting interest rates, but they are likely to have to pay some capital gains tax. Furthermore, when they deduct depreciation, it is at historical rather than current prices, so that the value of this deduction diminishes as inflation increases. There are, of course, other tax breaks that landlords get, but they do not vary directly with inflation. The result is that the price an owner-occupier is willing to pay for a unit rises

There is probably some range of interest rates, however, that make conversion more attractive than other real estate investments even though the rates may actually be rising. In essence, rising interest rates may increase the proportion of buyers preferring converted units; and, therefore, converters may be willing to invest in conversion projects to meet this demand. Activity in the real estate market during the last half of 1979 provides some support for this hypothesis.

Although interest rates were rising during this period, some new conversion projects were undertaken and most of those that were on the market were selling well. At the same time, investment in new single-family developments was slowing. Most market experts in the largest SMSAs indicated that a combination of high purchase prices and high interest rates accounted for the slowdown, and that the relative, and increasing price advantage enjoyed by converted condominium units accounted for the successful marketing of most conversions.

In the first quarter of 1980, however, the cost of money had risen sufficiently to cause many converters to abandon or postpone conversion projects or to operate acquired properties as rentals until interest rates decreased. A developer in Seattle, for example, reported a 70 percent decrease in converted unit sales in March 1980, and that properties were returning to the rental stock. Other projects have been cancelled in San Francisco, San Antonio,

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relative to what a landlord is willing to pay for the same unit. Hence, as inflation increases, the demand for ownership increases and the pressure for condominium conversion rises.

This will not be case for all potential owners. Some households in low tax brackets may still benefit more from renting after accounting for tax bracket shifts resulting from inflation (if the landlord is in a higher bracket than the potential owner). Furthermore, the rise in the standard deduction has cancelled out some of the advantages to changing tenure. Nonetheless, the above example does illustrate that there is likely to be a good deal of pressure for owner-occupancy as inflation rises to levels like those in the first quarter of 1980 (especially if inflation is expected to last for some time).

Again, the importance of the tax system in all of this should be clear. If instead of taxing (and allowing deductions) on nominal interest rates, taxes were levied on real or inflation-adjusted interest rates (interest rates minus inflation rates), inflation would not have changed homeowner costs in the illustration and the implied impetus for condominium conversion would vanish.

Portland, and Cincinnati, and most other places have experienced a slowdown in conversion during the same time period. A developer in Miami advised tenants in acquired properties to remain as renters until interest rates receded to 13 percent. This developer helped qualify his tenants for mortgage loans at that rate and offers leases until the rate declines. One major developer in Pittsburgh has gone out of business altogether.

From the converter's perspective, the above scenarios argue that there is some upper limit on interest rates above which developers are less willing to absorb the carrying costs associated with conversion regardless of how quickly they expect to sell-out and regardless of the extent to which inflation and tax subsidies reduce the costs of homeownership for buyers. In addition to the high cost of interim loans, the ability to secure end-loan financing for prospective unit buyers decreases as interest rates rise and this, too, lowers the attractiveness of the typical conversion. Pre-arranged financing is one of the attractions of condominiums and cooperatives for buyers; it is also attractive to converters because it permits a more rapid sell-out. Without it, the carrying costs of a conversion project may seriously undercut profitability if interest rates rise. 32/

Another financial consideration faced by converter/developers is the cost of acuiring rental properties. As the conversion phenomenon has grown, property owners have begun to take advantage of the demand by raising prices. These increased costs impact on profitability in several ways. Increased acquisition costs mean increased interest charges for wrap-around or other acquisition mortgages. In fact, larger acquisition loans may require greater equity participation by the converter and a more expensive pre-sale campaign -- both of which increase developer risk. In addition, higher acquisition cost can result in either increased unit price -- which may decrease the potential buyer pool and, therefore, increase the sell-out period -- or in reduced profit margins if unit prices remain constant.

If interest rates remain high and if asking prices for rental properties suitable for conversion also remain high, it could be expected that only larger firms, perhaps those doing business on a national basis, will remain active in the conversion market. Smaller firms may not be able to marshal the resources necessary to acquire and/or rehabilitate properties or to qualify for acquisition and interim financing loans. As noted, interest rates during the first quarter

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32/ Donald H. Haider, "Economics, Housing, and Community Development," op. cit.

of 1980 (averaging 14 percent for home mortgages and two points over prime for most developers) may have stopped almost all conversion (and other housing) activity; few firms could either pay cash for acquisitions or finance their own purchases. Some are using land contracts, but this practice is not widespread.

It has been suggested that converters attempt to earn between 10 and 30 percent of gross sales as profit. 33/ Clearly, the money market conditions described above impact on profitability and may be largely responsible for the sharp cutback in conversion activity in the first quarter of 1980. Even if demand for converted units remains very high, it is unclear that many firms can afford to undertake conversion projects when the carrying costs are as high as 20 to 22 percent (two points over prime, on average). Those potential conversion projects requiring substantial rehabilitation are likely to be the most seriously affected since they will have significant carrying costs associated with them.

Actual returns on conversion projects already completed have, in some cases, significantly exceeded the 10-30 percent figure. In fact, if developer equity or "exposure" is used as the base from which to calculate returns, the percentage can be enormous. A rather large complex in Houston was converted earning the developer a before tax, 40 percent profit on gross sales (using the cost of acquisition and rehabilitation as the base for calculation). 34/ In San Francisco, a developer expected to at least double his money ($30 million purchase price plus $5 million in rehabilitation) on a project already begun. 35/ In Los Angeles, a group of investors expect a before-tax return of $2 million on a conversion project that required only $50,000 of their own money as equity. 36/ That is a return of almost $40 for every dollar of equity exposed for a relatively short period of time. The potential for returns of this magnitude may account for the fact that some conversion projects are still undertaken despite the large carrying costs associated with current high interest rates.

Rental Property Owner. Most market specialists agree that the rental property owner is motivated by two major concerns: the cost of operating rental property versus rental income (cash flow) and the

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33/ As noted below, however, profit margins often exceed 30 percent. The key is the base upon which profit is calculated.

34/ E. Richard Bourdon, "Condominium Conversions: Possible Changes in Federal Tax Law," op. cit.

35/ David Sutton, "Getting Rich Quick in the Condo Market," op. cit.

36/ Ibid.

return received on investment (as measured by equity appreciation, tax brackets, debt service, and the like). Most also agree that investment in rental property has generally become a poor alternative relative to most other investments. Recent changes in financial conditions reinforce this difference.

Basically, a rental property as an investment is worth what the building can sell for as a rental plus any tax shelter advantages and depreciation benefits accruing to owners. The "real" value of these additions depends, to a large extent, on the tax bracket of the owner. 37/ In general, the higher the tax bracket, the greater the value of such things as accelerated depreciation. In essence, more income can be written off to depreciation resulting in a net decrease in current tax liability.

A critical factor, however, is that no amount of allowable depreciation or expected appreciation can equal the return received on the sale of rental property to converters. 38/ In the recent past, high interest rates have diminished the utility of refinancing as a mechanism to allow the recovery of accrued equity, and this serves as a further impetus to divest, rather than hold, investment in rental properties. Even though the Tax Reform Act of 1976 eliminated some of the tax benefits associated with the early sale of a rental property (including the elimination of the excess depreciation recapture credit), a combination of greatly increased values of rental properties as owned units and real or perceived constraints on operating margins provides strong inducement for property owners to sell and re-invest elsewhere. The choice is made more advantageous by the fact that profits on the sale of an entire building, regardless of the intended use of the structure, are taxed at capital gain rates and not as ordinary income. Moreover, the capital gains tax rate was recently reduced, allowing an owner to keep a greater share of profits regardless of tax bracket. The capital gains treatment

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37/ The following sources provide details on the profitability of rental ownership: "Legislating to Restrain Co-ops and Condos," Business Week 18 (February 1980); Rental Housing: A National Problem That Needs Immediate Attention, op. cit.; William Brueggeman, Tax Reform, Tax Incentives and Investment Return on Rental Housing (Columbus: Ohio State University, 1977); Condominium Conversions: Possible Changes in Federal Tax Laws, op. cit.; and Leonard G. Sahling and Rona B. Stein, "Co-op Fever in New York City," Federal Reserve Bank of New York Quarterly Review 5 (Spring 1980), pp. 12-19.

38/ Condominium Conversions: Possible Changes in Federal Tax Laws, op. cit.

of profits is the prime reason most property owners sell to converters. If they undertook conversions themselves, the profits would be taxed as ordinary income.

To Recap. Interest rates and the availability of mortgage money play major roles in determining the extent of conversion. Rising interest rates may shift both demand and supply factors in favor of converted condominiums, relative to other unit types. Very high interest rates, however, cause a decrease in virtually all real estate actions. Rental property owners have benefited from conversion in a number of ways including rapidly rising asking prices for properties, a strong demand for the product, and changes in the tax laws that allow owners to retain a significant portion of the proceeds on sales of properties to converters.

Household Characteristics

Conversions are seen by some as driven primarily by the shift in housing demand from rental to ownership. This shift is occurring among some middle-income households, for whom the marginal financial advantage of owning vs. renting has recently become greater. The shift is largely a result of actual and expected future inflation (including future appreciation of housing values and the greater tax advantages of ownership for households pushed by inflation into higher marginal income tax brackets). 39/ Inflation of housing prices has, at the same time, placed traditional single-family homes beyond the financial reach of more middle income households. thus, inflation -- combined with Federal tax laws -- work both to increase ownership demand and to reduce the ability of many households to purchase single-family homes. Condominiums and cooperatives -- including those converted from rentals -- offer a less expensive ownership alternative at a time when more are seeking to own rather than to rent. For this reason, if for no other, demand for converted condominiums and cooperatives would be expected to grow and to create new profit opportunities for converters.

If demand drives conversions, then those housing markets with relatively large proportions of middle-income renter households in the early 1970s will be those with the greatest volumes of conversions. As noted earlier, there is a positive relationship between the percentage of renter households in a metropolitan area earning $25,000 or more in the mid-1970s and the likelihood that this area had a

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39/ See Footnote 31, page V-24.

high level of conversion activity from 1977 through 1979. For these households, the tax subsidy and increases in marginal tax brackets are sufficient to induce increases in the demand for ownership. This supports the argument that conversions are driven by a shift of housing demand from renting to owning.

Further evidence of the demand hypothesis is that conversions are positively associated with change in SMSA population and with net in-migration. (See table V-1). Those areas experiencing relatively greater growth, as measured by percent change in population and percent net in-migration, have greater proportions of their multi-family stock being converted. The change in the percent of households containing two or fewer persons (between 1970 and 1975) and the change in the percent of households headed by persons aged 35 years or less (in the same time period) are both positively associated with the proportion of the rental stock that has been converted (See table V-2). Nationally, the percentage of all central city renter households comprised of two or fewer people rose from 60.3 percent in 1970 to 66.8 percent by the mid-1970s. Similarly, the percentage of all central city households headed by persons 35 years old or less rose from 27.6 percent to 32 percent in the same time period. These two types of households comprise a large share of the demand for condominiums (see chapter VI) and provide strong evidence of the demand-driven nature of conversions.

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The profit made by rental property owners on sales to converter/developers is the proximate cause of conversions. The most direct cause is the availability of households willing to buy from the converter/developer. Market values of rental properties have increased dramatically due to the conversion option, and property owners have been receiving purchase prices far in excess of the resale values of these properties as rentals. There is evidence that in some, and perhaps all, markets, the difference in market values is also a function of decreasing operating margins. There is even stronger evidence that the difference reflects a shifting of some middle-income housing demand from rental to ownership.

Therefore, with regard to the two views of why conversions occur, summarized at the beginning of this chapter, little can be found to suggest that conversions are a response to softening rental markets. Although declining operating margins for many rental properties throughout the nation have provided incentives for conversion, the major reason for the substantially higher market values of many apartments as condominiums or cooperatives than as rentals is the substantial and growing demand for this form of ownership.

This conclusion is based on the circumstantial evidence that conversions are more likely to occur in SMSAs with stronger housing markets. The metropolitan areas with highest volumes of conversion activity appear to have relatively vigorous housing markets characterized by higher volumes of new single-family and multi-family construction, higher than average rent levels, and lower than average rates of rental inventory losses from abandonment or demolition. Rental vacancy rates in these metropolitan areas are similar to those in areas with fewer conversions. Moreover, these areas have higher proportions of affluent renter households likely to be the major source of demand for converted condominiums and cooperatives. Within metropolitan areas, the particular buildings chosen for conversion tend to be larger and to support higher average rents than other rental buildings in the same markets.

Chapter VI examines the composition or demand for converted condominiums and cooperatives and the reasons for purchase given by those who buy. Chapter VII includes an analysis of the occupancy shifts resulting from conversion. Together, these two chapters provide further evidence on the role that demand plays in driving the conversion of rental property to ownership.

Chapter VI

Demand for Conversions: Who Buys, Who Doesn't, and Why

The previous chapter emphasized the importance of homeownership demand as a major factor driving conversions. This chapter discusses the characteristics and motivational bases of that demand. 1/

It is important to profile the socioeconomic and demographic characteristics of buyers and non-buyers to determine the degree to which conversions draw from the traditional pool of single-family home buyers or "create" a new set of owners. To complement these profiles, the various reasons people buy or do not buy are also examined. A primary question is whether converted condominiums or cooperatives are a preferred housing choice. Ownership per se is an indication of the effective demand for conversions, but it is not always indicative of a strong desire to own such units. Some buyers might prefer to own other types of housing, besides a condominium or cooperative, but buy converted units because they cannot afford their first choice; some may buy because they cannot find suitable rental units; and others may buy because they simply do not wish to move from their units when they are converted. Knowing why people buy, rent, or move out of a converted building helps to explain the basis for the effective demand for condominium and cooperative conversions.

Four Types of Occupants

At any point in time, a housing market may contain buildings which have been fully converted (i.e., all units have been sold as condominiums or cooperatives) and buildings which are in the process of conversion (i.e., at least one, but not all of the units have been sold). Of all of the households who had occupied units in buildings whose conversion began after January 1977 in the 12 high conversion

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1/ The information sources for this chapter include survey responses from both people currently in converted buildings and those who moved out of these buildings; field interviews with tenant representatives, developers, market experts, and local officials in the nation's 37 largest SMSAs; and a review of existing research. The survey of households was conducted in December 1979 and January 1980 in 12 SMSAs with high levels of conversion activity over the period 1977 through 1979.

activity SMSAs, 58 percent had moved out as of January 1980. 2/ The remaining 42 percent continued as either owners or renters, along with new occupants who had moved in since the conversion. Converted and converting building occupants, therefore, consist of the following types of households:

Table VI-1

Residents of Converted Buildings

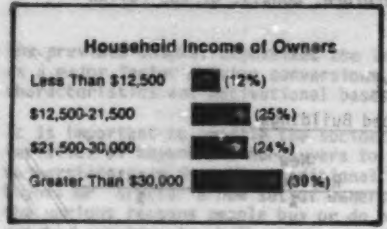
	Continuing Residents %	New Residents %	Total %
Owner Occupied Units	22	41	63
Renter Occupied Units	20	17	37
Total	42	58	100

Owner-Occupiers of Converted Units

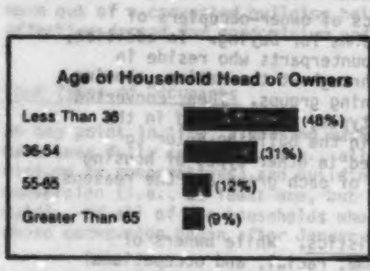
This section profiles the characteristics of owner-occupiers of converted units and discusses their reasons for buying. In addition, owner-occupiers are compared to their counterparts who reside in other types of owner-occupied housing throughout the nation, showing dramatic differences between the two owning groups. Then, converted unit owners are disaggregated into two types, as indicated in the table above: tenant buyers, who lived in the building prior to conversion; and outside buyers, who lived in other types of housing before conversion. The characteristics of each group and the reasons they purchased are contrasted.

Socioeconomic and Demographic Characteristics. While owners of converted units come from all age, income, racial, and occupational groups, they are mostly white, have professional or managerial occupations, have relatively high incomes, and are smaller households with younger heads.

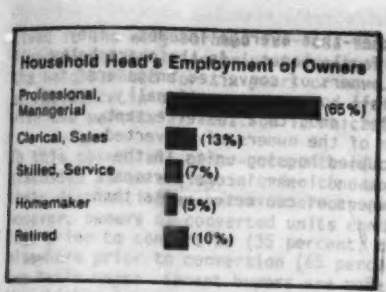
/ These 12 SMSAs are identified in chapter 2; they account for 9 percent of all conversions in the U. S. during 1977-1979.



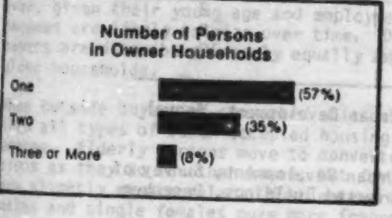
About one-half of the owners are less than 36 years of age; while only one-fifth are over 55, and only 9 percent are over 65. Those over 55 without children constitute only 19 percent of all owners.



Sixty-three percent have incomes greater than $21,500; and 39 percent earn more than $30,000 annually. Furthermore, their incomes can be expected to rise in the future because many are young and professionally employed. On the other hand, only 12 percent have incomes of less than $12,500.



Ten percent of the owners are black, and two percent are Hispanic. Close to two-thirds of the household heads hold professional or managerial positions, and 40 percent of the spouses hold similar jobs.



ost households in converted units are small: 57 percent have only ne person; and, of those, nearly two-thirds are female. Thus, 36 ercent of the owners are single females, while 21 percent of the wners are single males. Most of these single-person households re under 55 years of age. 3/ From these statistics, a profile of ondominium and cooperative owners emerges: owners are predominantly

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/ The remaining 43 percent of households are married couples with or ithout children (31 percent) and male or female heads with dependents 2 percent).

young, single, professionals with higher-than-average incomes. They are not typical purchasers of single family homes. As the chart below depicts, when the characteristics of owners of converted units are compared with the characteristics of all homeowners, nationally, one finds that single males, single females, and, to a lesser extent, blacks represent a greater proportion of the owners of converted units than they do of other owner-occupied housing units in the nation. 4/ Conversely, elderly persons and lower income persons represent a smaller portion of the owners of converted units than they do of other types of housing.

Table VI-2

Profile of Owner-Occupiers:
All Owner-Occupied Housing and Owner-Occupied Converted Units

Population Characteristics	All Owner-Occupied Housing a/ %	Owner-Occupied Converted Units b/ %
One person, male	4	21
One person, female	10	36
Black	7	10
Hispanic	2	2
Age 65 and over	22	9
Income less than $12,500	39	12

a/ U.S. Department of Housing and Urban Development, Annual Housing Survey, 1977.

b/ U.S. Department of Housing and Urban Development, Survey of Current and Former Residents of Converted Buildings, December 1979 and January 1980.

Most owners of converted condominium and cooperative units are not new to the neighborhoods in which they buy. Forty percent have been in the neighborhood for at least six years, while only nine percent

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4/ The proportion of single female owners is notably high. Further comparisons show that only 12 percent of all owners of newly built condominiums, which are primarily townhouse and garden style units, are single females. See Michael Sumichrast, Robert J. Shehan, Gopal Ahluwalia, Profile of a Condominium Buyer (Washington, D.C.: National Association of Home Builders), 1978, p. 45.

lived in the neighborhood for less than one year. Of the buyers who lived in the building prior to conversion, over 60 percent lived in the neighborhood for six years or more. The relatively long periods of residence in the area suggest a preference for and familiarity with the particular location in which they buy.

To this point, all owner-occupants of converted units have been discussed as an entity in order to describe who they are and to show their distinctiveness from owner-occupiers of other types of housing. However, owners of converted units consist of renters in the buildings prior to conversion (35 percent) and outside buyers who lived elsewhere prior to conversion (65 percent). These buyers differ in two basic ways: tenant buyers are more likely to be older and to have higher incomes than outside buyers. 5/

While 56 percent of outside buyers are under age 36, only 35 percent of tenant buyers are in that age category. With regard to older purchasers, 29 percent of tenant buyers are 55 years of age or older compared to 16 percent of outside purchasers. Almost one-half of tenant buyers have incomes of over $30,000, compared to 35 percent of outside buyers.

These statistics highlight the fact that outside buyers are, on average, younger and have slightly lower incomes than tenant buyers. However, given their young age and employment in the professions, their incomes are likely to rise over time. On the other hand, tenant buyers are distributed nearly equally among younger, middle, and older households.

When outside buyers of converted units are compared to recent movers into all types of owner-occupied housing nationally, strong contrasts emerge. Elderly persons move to converted units in the same proportions as they do to other homes, but for minorities, converted units are slightly more popular. Most noteworthy is the fact that single males and single females move more frequently into converted units than into other owner-occupied housing; and persons with low incomes move to converted units far less frequently.

/ All relationships reported in this chapter are statistically ignificant at the .05 level unless otherwise indicated.

Table VI-3

Profile of Owners-Occupiers:
All Recent Movers and Outside Buyers of Converted Units

Population Characteristics	Recent Movers into a/ Owner-Occupied Housing	Outside Buyers of b/ Converted Units
	%	%
One person, male	6	28
One person, female	5	29
Black	5	9
Hispanic	1	2
Age 65 and over	6	5
Income less than $12,500	39	14

a/ U.S. Department of Housing and Urban Development, Annual Housing Survey, 1977.

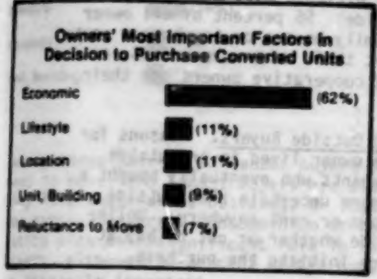
b/ Survey of Current and Former Residents, op. cit.

Reasons for Buying. The literature on condominium and cooperative conversions suggests several reasons why people buy converted units. One portion of the literature posits essentially negative reasons, such as that people buy because: there is of a lack of acceptable rental housing; there is a lack of affordable single family homes (the converted unit, sometimes, constituting a "starter home" used to build equity in order to buy a single-family home in the future); or, they simply do not want to move when their rental homes are converted.

Another portion of the literature posits essentially positive reasons, such as economic advantages. Those who were previously renting may purchase to receive the tax and investment benefits of homeownership, to stabilize monthly housing costs, or to obtain a discount offered by the converter. Those who were previously single-family homeowners may purchase a converted unit in order to reduce maintenance and utility expenses.

Others may want to live in a particular location because of its proximity to the downtown area, their job, public transportation, or other attractions. Retirees and those with leisure time interests may choose to purchase converted units, especially in resort areas, as permanent residences or vacation homes. Finally, younger buyers and elderly persons may prefer the lifestyle of a converted unit in which security, maintenance, and services are provided.

The literature does not make clear which of these reasons is most important, or whether negative or positive reasons dominate. Hence, owners were asked to indicate the single most important reason they decided to buy. 6/



Owner occupiers, as a group, express all the reasons given in the literature for purchasing converted units; however, most cite economic factors as primarily important. Nearly two-thirds of all owncr-occupants decided to purchase their unit for essentially economic reasons such as the following: to provide a hedge against inflation; to stabilize their rising housing costs; to obtain tax shelters and investments; to purchase in lieu of the higher costs of single-family homes; and to take advantage of the discount on the price of the unit offered by the converter (for tenant buyers only). Eleven percent of all owner-occupants bought units principally because of their location. Another 11 percent were attracted to selected characteristics of condominium or cooperative living, such as ease of mainte-nance. Nine percent simply liked the building or unit.

Some buyers cited essentially negative reasons for buying, but they constituted a minority of all purchasers. Seven percent of all buyers ought because they did not want to move; this, however, constitutes fully 23 percent of all tenant buyers, as outside buyers were not in esidence. Four percent bought mainly because of a lack of acceptable ental units in their desired area.

/ Respondents were read a list of many possible factors and asked if y were important motives in their decision to buy. Then, they re asked to choose one of the thirteen as the single most important ctor in their decision. It is the response to the latter question ich is described above.

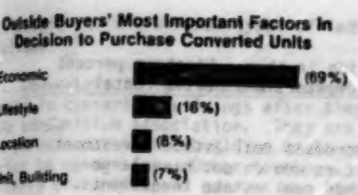
By and large, this type of multi-family housing is providing ownership benefits to people who have not previously been homeowners. It is important to note, however, that while economic benefits are perceived as positive reasons for buying converted units, these units are not considered to be the final or ultimate type of housing in which most current owners plan to reside: 56 percent of all owner occupants say they plan to buy one-family houses or townhouses next; and 5 percent say they plan to rent at their next move. Thus, a majority of converted condominium and cooperative owners see their unit as interim housing.

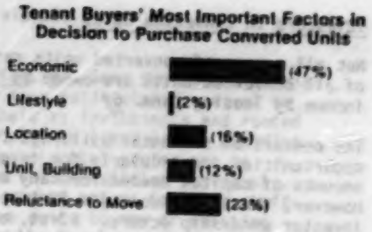
Differences Between Tenant Buyers and Outside Buyers. Reasons for purchasing a unit vary by whether the owner lived in or outside the building prior to conversion. Tenants who eventually bought a unit in the building were initially more uncertain than outside buyers about whether they wanted to own or rent anywhere. Unlike tenants in the building who must decide whether or not to buy at the time of conversion, outside buyers initiate the purchase.

Ninety-one percent of all outside buyers began their housing search with the intention of buying rather than renting, and 98 percent prefer to buy the next time they move. On the other hand, when the prospective conversion was announced to tenants in the building who eventually bought, only one-half were sure they wanted to purchase initially. The remaining half were either undecided or did not want to buy.

Most tenant buyers, who initially were reluctant to buy, apparently did not feel under pressure to do so. Four of every five households who finally purchased after initial uncertainty did not attribute their decision to perceived pressure. There are different reasons why these households ultimately bought, including the following: after a search for other housing, some did not find another unit they liked as well; others were persuaded to purchase because they became convinced of the advantages of homeownership over renting; and others, particularly elderly persons, were subsequently assisted in purchasing a unit by family members. However, the comments of persons who felt pressured express at least two types of pressure. Some persons objected to "hard sell" tactics. Others felt pressured by a perceived lack of housing alternatives.

When the motives of tenant and outside buyers are compared, economic incentives still dominate other considerations for both groups; but they are relatively more important for outside buyers. For less than one-half of tenant buyers, but for 69 percent of outside buyers, economic factors are the primary motivation.


Outside Buyers' Most Important Factors in Decision to Purchase Converted Units


Tenant Buyers' Most Important Factors in Decision to Purchase Converted Units

wenty-three percent of tenant buyers purchase because they do not ant to move; and tenant buyers are also more likely to buy because hey like their unit, building, or location (28 percent vs. 15 percent or outside buyers). Condominium or cooperative lifestyle character- stics play an insignificant role in the purchase decision of tenant uyers, although 16 percent of the outside buyers cited this factor s primarily important.

cioeconomic and Demographic Differences. Buyers' decisions to rchase converted units also vary by age and income. Buyers over are less concerned about economic factors than are those between and 65, and both of these age groups emphasize economic factors ss so than those under age 36. Buyers over 65 tend to emphasize ther the desire not to move (32 percent) or lifestyle and locational ctors (30 percent). Also, people earning incomes below $12,500 are ss motivated by economic considerations than higher income groups. e decisions of middle income buyers -- those earning between $12,500 d $21,500 -- depend more on economic factors than do the purchase cisions of lower or higher income groups.

Recap. Condominiums and cooperatives provide a hybrid form of sing, combining the economic benefits of ownership associated h detached or semidetached homes with the locational and lifestyle efits of renting. These units appeal, in particular, to the ing numbers of small households with above-average incomes who, the past (i.e., prior to the popularity of condominiums or coopera- es), may have rented since no alternative to single family owner- p was available. Both outside buyers and tenant buyers are prin- ally small households with good incomes, although tenant buyers e higher incomes. Therefore, while outside buyers are most likely cite economic reasons for purchase, tenant buyers, desiring to d a move and to retain their location and unit, cite reasons r than economic ones for purchasing. In particular, elderly nts bought primarily because they did not want to move from r unit or neighborhood.

Investors In Converted Units

Not all owners of converted units reside in them. Nineteen percent of all converted units are owned by investors who derive rental income by leasing them. 6/

The conversion of rental buildings increases real estate investment opportunities, particularly for investors who do not have large amounts of capital needed for many other real estate investments. However, there are two major limitations on the extent to which investor ownership occurs. First, ceilings on the number of investor-held units may be imposed by mortgagees as a risk-reduction mechanism. In addition, any building whose individual unit mortgages are to be sold on the secondary mortgage market are allowed a maximum of 20 percent investor-owners. 7/ However, in the case of mortgages sold to the Federal Home Loan Mortgage Corporation (FHLMC), this maximum increases to 40 percent after two years of successful operation as a condominium. Second, most cooperatives generally have no or very few investor-owners because cooperative corporations prefer to have only the owners in the building and because banks making cooperative loans often refuse to finance investors. Most investors, therefore, own condominiums rather than cooperatives; although there are indications that investor participation in cooperatives may be increasing, particularly in areas with active housing markets.

Even though the secondary market does not buy all converted unit mortgages, the overall proportion of investor units (19 percent) is very close to the 20 percent limit that the Federal National Mortgage Association (FNMA) and FHLMC place on the proportion of investment units in any converted building. However, this 19 percent varies considerably among housing markets. For instance, investors may own as high as 40 percent of the units in Miami, where few mortgages are sold on the secondary market, and as low as 1 or 2 percent in New York City, where cooperatives dominate. More importantly, the proportion of investor-owned units depends on selling prices. Units in luxury buildings will, more than likely, not be sold on the secondary market because the unit sales prices exceed the loan-to-value limits set by FNMA or FHLMC.

6/ For this chapter, an investor is one who purchases a converted unit in which rental income is produced. Others who enter into limited partnerships with developers are discussed in chapter III.

7/ See chapter X for a more complete discussion of the relationship of the secondary mortgage market to conversions.

Investors include several types of individuals or groups, as follows: 8/

1. Converters or landlords and associates. 9/ Some developers retain units in converted buildings after they have relinquished control to the condominium association. They are held as investments and rented to persons new to the building or to people who lived in the building prior to conversion. Other developers give rental preference to elderly or handicapped persons who lived in the building previously. Developers may also sell units at below market prices to their staff members or associates who then rent these units to new or existing tenants. This can occur especially when the developer desires to complete all sales and pay off interim financing.

2. Outside individuals or groups. Individual or group investors urchase converted units and make them available for rent. While ome of these investor-owners rent to new tenants, others act as andlords for tenants who wish to stay on as renters after the onversion is completed.

. Family members. Family members purchase for their parents or hildren. For instance, there are cases in which parents of students urchase converted condominiums located near their children's ollege or university. Some elderly persons are aided in purchasing heir converting unit by their family.

. Former residents. Four percent of all former residents purchased unit which they, in turn, rented to a third party.

Part-time owner-occupants. Some converted units are purchased individuals or groups who use them primarily as vacation homes; t, while they are not in residence, they rent the units to other cationers.

viously, the reasons why investors purchase converted units are imarily economic. In many ways, the economic benefits of owning ndominiums are similar for both investors and owner-occupiers.

Investor owners were not included in the sample of unit owners veyed for this study; information on who they are and why they comes from interviews conducted with a variety of housing market erts, real estate representatives, and from those households ing in converted buildings who rent from these investors.

These are not included in the previous calculation of investor- d units. They provide an additional 18 percent.

Both benefit, especially in periods of inflation, by deducting high interest payments and by paying the lower capital gains tax rate on the attendant capital gains at sale. In some cases, people buy a unit for their elderly parents or children or to maintain a vacation residence; but, even then, they receive certain financial benefits.

The economic incentives for purchase include appreciation of value to be realized at the time of sale of the unit and income tax benefits associated with investment in rental properties. According to many market experts across the nation, in most areas the resale value of converted units in the fall of 1979 was still strong, and owners could continue to expect a good return on their investment. 10/

Individually or in limited partnership, investors also receive tax benefits on their investment while units are held. They are allowed several deductions from their gross taxable income. These include the following: 11/ (1) mortgage interest -- a maximum interest deduction of $10,000 plus the net investment income is allowed; (2) real estate taxes -- owners deduct real estate taxes assessed on the property; (3) maintenance, repairs, insurance -- expenses for repairs, maintenance, insurance, garbage removal, and similar costs, are deductible when these are paid directly or through association fees; and (4) depreciation -- investors use accelerated depreciation methods for new units (constructed after July 24, 1969). Used units are limited to depreciation at the 125% declining balance rate. The sum of these deductions allows investors to reduce their taxable incomes, thereby entering lower tax brackets. The benefits are greatest during the first 7 to 12 years the units are held. After that time, mortgage interest and depreciation deductions decrease substantially.

Tax regulations can sometimes result in benefits to tenants who rent from an investor. Some investors seek primarily to shelter their incomes, rather than gain profits; and, therefore, the rents charged need not always include a substantial profit margin. In such cases, rents in converted buildings can be competitive with other types of rental units in the area.

10/ For a more complete discussion of the impact of interest rates on conversions, see chapter V.

11/ See the Internal Revenue Code Sections 162, 163(d), 164, 167, 167(j)(2) and (5), and 212.

While the effect of tax regulations discourage high rent levels, other factors can increase rents. For instance, extensive rehabilitation to the building at the time of conversion contributes to higher rents. In addition, rent controls, which apply to multifamily rental units in some jurisdictions, do not apply to the condominium or cooperative units held by investors in the same area. Therefore, while the presence of investors means that units are retained in the rental inventory, the rents charged for these units often exceed the amount previously charged for the same unit.

Renters In Converted Units

Not all residents of converted buildings are owners. In New York, for example, many buildings are converted without tenant evictions; and tenants can renew their leases indefinitely. In Brookline, Massachusetts, tenants cannot be evicted even though their unit is sold. Renters may also live in a building not because of statutory protections but as tenants in units held by investor(s).

Thirty-seven percent of all occupants in converted buildings are renters. About 19 percent lease from an investor(s); the other 18 percent rent from the landlord or developer. 12/ Both groups of renters (those in the developer/landlord held units and those in investor-owned units) include people who were tenants in the building before conversion, as well as those who have moved in since the conversion. Usually, however, newer tenants lease from someone other than the converter of the building.

When renters of converted units are compared to buyers, they are similar in race, household size, occupation, age, and length of residency in the neighborhood. The only significant difference is between income levels of renters and owners. Seventy-three percent of owners have annual incomes of over $21,500; however, only 46 percent of all renters are in this group. On the other hand, 22 percent of renters (but only 12 percent of the owners) earn less than $12,500 annually.

Renters in Converted Units versus All Renters: When renters of converted units are compared to all renters nationally, the former have higher incomes and smaller households. Sixty-nine percent of all renters nationally, but less than one-fourth of those in converted units, make less than $12,500. Similarly, while 37 percent of all renter households nationally have three or more persons, only 15 percent of renters in converted buildings are this large.

12/ The household survey included both buildings in the process of conversion and buildings in which sales were completed. In the former, a higher percentage of residents are renters who may leave the building when their lease expires.

Table VI-5

Profile of Renters:
All Renters and Renters of Converted Units

Population Characteristics	All Renter-Occupied Housing a/	Renter-Occupied Converted Units b/
	%	%
One person, male	15	18
One person, female	19	29
Black	17	15
Hispanic	8	4
Age 65 and over	17	17
Income less than $12,500	69	22
Three or more person household	37	15

a/ U.S. Department of Housing and Urban Development, Annual Housing Survey, 1977.

b/ Survey of Current and Former Residents, op. cit.

In addition, the table illustrates that elderly persons lease converted units as often as they lease other rental units. Black and Hispanic persons rent in converted units less often, and single males and single females lease converted units more often than other rental units nationally. Therefore, except for similar representation of elderly persons, renters in converted units are quite different from other renters.

Continuing Tenants versus New Renters. When renters are considered as a single entity, they are more similar to owner-occupiers of converted units than other renters nationally. However, disaggregation into continuing renter and previous renter groups provides additional information.

Elderly persons are more likely to be continuing renters than to move to the units and rent. New renters tend to be younger and have higher incomes than continuing renters. Furthermore since more of them are professionally employed, their future incomes will probably increase faster than the incomes of continuing renters.

More than twice as many new renters (69 percent) are under 36 years of age, compared to roughly one-third of all continuing tenants. More than one-half of the new renters, versus 39 percent of continuing renters, have incomes greater than $21,500. 13/

13/ The income differences between new renters and continuing renters are not significantly different.

As the table below illustrates, the characteristics of new renters in converted units contrast sharply on several dimensions with those of all recent renters, nationally, in other types of rental housing. Higher proportions of single males and single females move, as renters, into converted units more often than other types of rental housing. A comparatively small proportion of lower income persons rent in converted units. Again, these findings indicate that converted units are providing housing for persons of higher-than-average income and single persons.

Table VI-6

Profile of New Renters: All Renters and Renters in Converted Units

Population Characteristics	Recent Movers into Rental Housing a/	New Renters in Converted Units b/
	%	%
One person, male	17	23
One person, female	15	23
Black	13	14
Hispanic	8	5
Age 65 and over	6	5
Income less than $12,500	70	17

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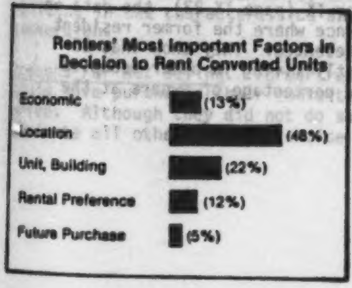
a/ U.S. Department of Housing and Urban Development, Annual Housing Survey, 1977

b/ Survey of Current and Former Residents, op.cit.

Reasons for Renting. The vast majority (80 percent) of all renters in converted buildings simply prefer to rent, rather than to buy, for whatever reason. Furthermore, they wish to rent only in the neighborhood where they are currently living.



For one-half of all the renters in converted buildings, the most important factor in their decision to rent was location, although location was much more important to new tenants (58%) than to existing renters (39%). About one-fifth of the renters do so primarily because of the attractiveness of the unit or building. Seventeen percent rent because they were allowed to remain in the building and have an option to buy, or simply because they can rent for a long time before they have to move. Thirteen percent rented because there was little or no increase over previous housing costs.

In contrast to buyers, therefore, renters' decisions depend less on economic factors, such as the cost of renting, than on locational or unit preferences. However, the decision to continue renting in the building must be examined along with the decision not to purchase, which is discussed in the following section.

Those Who Do Not Buy

The previous sections examined the types of owners and renters who live in converted units, as well as their reasons for choosing either form of tenure. This section discusses those residents in the building before conversion who did not buy, first, examining the characteristics of former residents who moved elsewhere and, second, the reasons why these former residents as well as continuing renters in the converted building did not buy.

Most, but not all, of a converted building's former residents go elsewhere to rent. Eighteen percent moved out and purchased another housing unit, 9 percent more (for a total of 27 percent) wanted to buy, but did not. Interestingly, 4 percent of former residents actually purchased their converted units and then moved elsewhere; they are, in effect, investor-owners who rent their units to other households. 14/

Former residents exhibit considerable variation in their incomes, occupations, and ages: there is no overwhelming proportion of old

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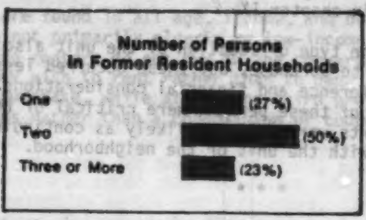
14/ These figures are based on the first move made by those households which left converted buildings. In Chapter IX (page IX-23), the data on the current residence (that is, the residence where the former resident lived at the time of the interview) are presented. They show that 26 percent of the former residents are currently living in owner-occupied units -- an increase of 8 percent over the percentage of owners at the time of the first move or young, low-income or high-income households. For example, 43 percent of all former residents are under age 36, which is larger than the comparable figure for continuing renters (35 percnt) and tenant buyers (35 percent). While those over 65 constitute one-fifth of all former residents, 60 percent of all those who earn under $12,500 are elderly. Therefore, about 12 percent of all those who move from converted buildings are elderly households with incomes of less than $12,500. Fifty-four percent of the former residents have incomes over $21,500 annually, while only 20 percent make under $12,500. One-half of the households have two persons and almost one-quarter have three or more. Eleven percent are black; 1 percent are Hispanic.



Former residents of converted buildings do not differ significantly from renters and differ only somewhat from owners, the latter having higher incomes and smaller households. Thirty-nine percent of owners versus 30 percent of former residents earn over $30,000 annually. Fifty-seven percent of owners but only 27 percent of former residents are single persons.

To Recap. The majority of former residents do not have low incomes, in large part because most buildings converted, to date, are at the middle to upper end of the rental market. Rents in the buildings prior to conversion were high enough, in many cases, to have precluded low income households from renting there. However, it is important to remember that these results represent the average of 12 SMSAs. Significant variation can exist from area to area and building to building in the characteristics and experiences of those affected by conversion.

Reasons For Not Buying. Former residents and continuing renters could have purchased their converted units, often at a discounted price. Although they did not do so for several reasons, two reasons dominate all others: tenure choice and affordability.

Overwhelmingly, continuing renters and former residents prefer to rent or to purchase a single-family home rather than a condominium or cooperative. About three-fourths of these persons wanted to continue renting; a few said they were too old to purchase, and a few said there were too many legal problems with ownership. Former residents (29%) were more likely than continuing renters (15%) to prefer to purchase a house.

Affordability was an issue for many during the purchase decision; 47 percent said they could not afford to buy the unit. Fifty-eight percent could have afforded the purchase costs, but they decided not to buy either because they did not like the unit well enough to purchase or they wanted to buy a house. Further discussion of affordability is given in chapter IX.

Other factors such as the type or location of the unit also played a role in decisions not to purchase, but these occurred less frequently than rental preference and financial considerations. Although less than half of these persons were critical of the unit or location, former residents were twice as likely as continuing renters to suggest displeasure with the unit or the neighborhood.

* * *

The discussion of demand for conversions has been organized around three major groups of people: those who buy converted units, those who rent in converted units, and those who decide not to buy converted units and move from their buildings. Purchasers who occupy their condominium or cooperative are mostly white, relatively young, small households. These households have higher than average incomes and are usually employed in managerial and professional occupations. Only 19 percent can be considered "empty nesters," that is, over 55 and without children living with them. Single persons, especially single females, and higher income persons represent a larger share of converted unit owners than of owners of other housing nationwide. Conversely, fewer elderly or lower income persons own condominium or cooperative units than own all forms of housing nationally. Two-thirds of the owners who live in converted units buy for the economic benefits of ownership, although economic factors are relatively less important for tenant and elderly buyers than outside or younger buyers. One in ten of the owner-occupiers purchases either because of a reluctance to move or because of a lack of an acceptable rental unit in a desired area. Tenant buyers more often cite the attraction for the location and the building or unit as well as a reluctance to move in their decision to buy.

Nineteen percent of the units are bought by a variety of investors who lease these units to renters. In the long run, some of these will be sold to owner-occupiers; on the other hand, some units currently owned by owner-occupiers may be sold to investors in the future.

Renters of converted units are newer to the neighborhood than are owners. They are also less often professionals, have lower incomes, have larger households (more than one person), and are slightly less likely to be white. However, when compared to renters nationally, renters of converted units have higher incomes and are smaller households. New renters to the building are twice as likely to be under 36 and have better incomes than continuing renters. Renters choose to rent in the converted buildings usually because they like the building and/or neighborhood. A few others wish to buy at some time in the future.

Former residents are found in all age, income, and occupational groups. They are not primarily elderly or low-income households. They and continuing renters do not buy in the converted building simply because they wish to rent rather than to own. One-half cannot afford to purchase, while almost one-third prefer to own single-family homes rather than a condominium or cooperative.

Chapter VII

The Interaction of Supply and Demand: Market Effects and Future Volume

Condominium and cooperative conversions have certain obvious effects: housing units once occupied by renters change to owner-occupied status; other rental units are converted to condominiums or cooperatives but continue to be rented rather than occupied by their owners; and some households which once rented housing become owners of converted units. Thus, the effect of these conversions on rental supply or rental demand is not a one-to-one relationship. When rental units are converted to homeowner units, the supply of rental units in the housing market changes; similarly, when renters become homeowners, the demand for rental units is reduced. Previous renters in the converted property who do not purchase or who are unable to continue renting must locate housing elsewhere. The net effect of conversion in the housing market depends upon changes in both the tenure status of households and the occupancy status of housing units.

This chapter considers the interaction of supply and demand in the rental housing market. In the first section, an assessment is made of changes in owner and rental supply and demand based on conversion activity between 1977 and 1979 in the country's 37 largest SMSAs. From this assessment, an index is developed which measures the net effect of conversions on the rental housing market. Following this, three projections of conversion activity between 1980 and 1985 are presented. The first estimate is the sum of 38 separate trend-line projections, based on conversion activity between 1977 and 1979 in the 37 largest SMSAs and the balance of the nation. To determine the second estimate, the trend-line projection is modified to account for constraints on the supply of rental units appropriate for conversion. The trend-line projection is further modified to consider the effect of 1980s high interest rates and related financial conditions on future conversion activity. From this modification, the third estimate of future activity is determined.

These three projections are subject to further changes, depending on factors such as the extent of new multi-family housing construction. This and other factors likely to affect future conversions are discussed briefly. In the final section of the chapter, three scenarios describe what is "least likely" and "most likely" to occur with respect to future conversion activity.

The Net Effect of Rental Conversions on the Housing Market

This section presents the basic elements of a model of the effect of conversions on the rental market. 1/ Its purpose is to assess changes in owner and renter supply and demand resulting from conversions and, consequently, to develop an index indicating the net effect of conversions on the housing market.

The model is based upon a single-point-in-time analysis (January 1980) of the supply and demand changes occurring between 1977 and 1979 in 12 SMSAs (considered as a group) as a result of condominium and cooperative conversions. 2/ These SMSAs had high levels of conversion activity during the 1977-79 period, and the model is designed to estimate the effect of this activity on the collective housing markets of these SMSAs. Since 57 percent of all conversion activity during this period occurred in these 12 SMSAs, it is reasonable to assume that these effects will be representative of conversions taking place in the nation as a whole, but not individual markets of SMSAs.

Although the model and index of net effect may be used with market-specific data to assess the conversion effect in particular local areas, the data collected for this study do not permit market-specific analysis. It should be noted that the effect of conversions is likely to differ from market to market and, therefore, the national aggregated effect may not adequately describe the results of conversion activity in any particular locality.

1/ The model is presented in charts VII-1 and VII-2. This analysis is based on information generated from the Survey of Current and Former Residents described in chapter II.

2/ At present, no information is available to indicate changes in tenure over time; for example, converted units which are occupied by their owners may be subsequently rented, or investor-held units may be sold or occupied by their investor-owners. It is known that these and other tenure changes occur, but this cross-sectional study of recently converted units does not permit an assessment of such changes. Since the accelerated pace of conversions is a relatively recent phenomenon, further time and research are required before these tenure changes can be adequately specified.

Chart VII-1

Pre and Post Conversion Status of Households Purchasing Conversions and Former Conversion Residents, With Resulting Changes in the Housing Market Components, as per Each 100 Units Converted, 1977-1979

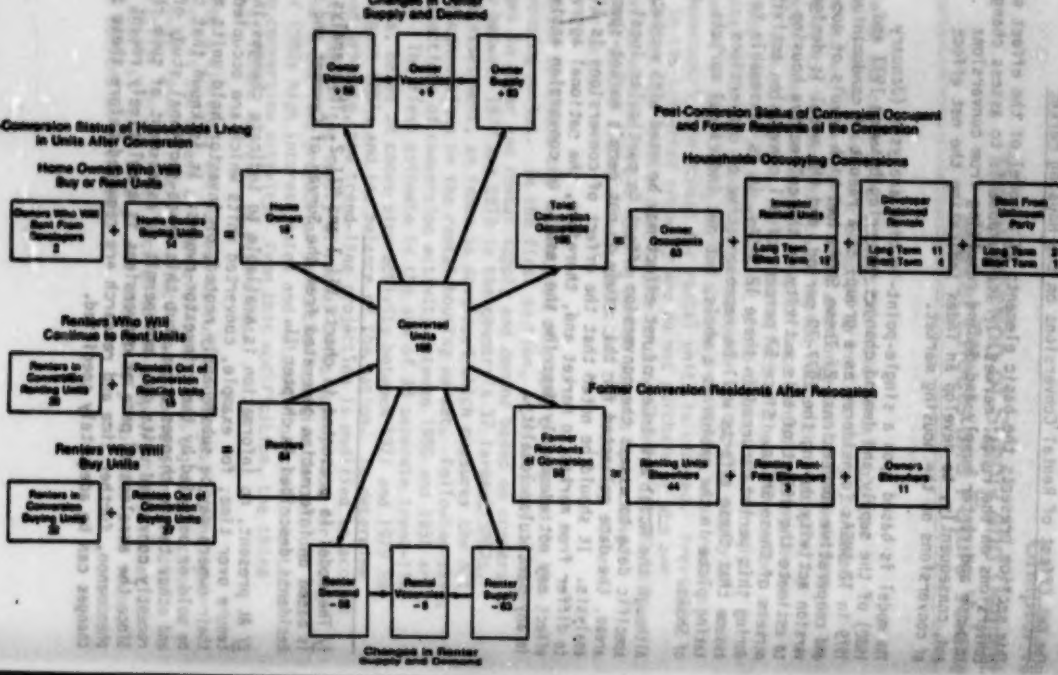

Changes in Owner Supply and Demand
Owner Demand + 58
Owner Vacancies + 5
Owner Supply + 63
Pre-Conversion Status of Households Living in Units After Conversion
Home Owners Who Will Buy or Rent Units
Owners Who Will Rent From Developers 2
Home Owners Buying Units 14
Home Owners 16
Renters Who Will Continue to Rent Units
Renters in Conversion Renting Units 20
Renters Out of Conversion Renting Units 15
Renters Who Will Buy Units
Renters in Conversion Buying Units 22
Renters Out of Conversion Buying Units 27
Renters 84
Converted Units 100
Post-Conversion Status of Conversion Occupant and Former Residents of the Conversion
Households Occupying Conversions
Total Conversion Occupants 100
Owner Occupants 63
Investor Rented Units
Long Term 7
Short Term 12
Developer Retained Rentals
Long Term 11
Short Term 4
Rent From Unknown Party
Long Term 2
Short Term 1
Former Conversion Residents After Relocation
Former Residents of Conversion 58
Renting Units Elsewhere 44
Renting Rent-Free Elsewhere 3
Owners Elsewhere 11
Renter Demand − 58
Rental Vacancies − 5
Renter Supply − 63
Changes in Renter Supply and Demand

Chart VII-2

Components of Change in the Housing Market Attributable to Conversions

Changes in Owner Housing Market Attributable to Conversions, as per Each 100 Units Converted

Owner Demand +58 = Conversion Owner Occupants 63 + Former Resident Buyers 11 — Previous Owners 16

Owner Vacancies +5 = Previous Owners 16 — Former Resident Buyers 11

Owner Supply +63 = Conversion Owner Occupants 63

Changes in Rental Housing-Market Attributable to Conversions, as per Each 100 Units Converted

Renter Demand −58 = Previous Owners Renting in Conversion 2 — Renters Buying Conversions 49 — Former Resident Buyers 11

Rental Vacancies −5 = Renters Out of Conversion Buying Units 27 + Renters Out of Conversion Renting Units 15 — Former Residents Renting 47

Rental Supply −63 = Conversion Owner Occupants −63

Definitions

Conversion Owner Occupants Are Households Which Have Purchased Units and Are Living in Them.

Former Resident Buyers Are Households Which Moved Out of the Conversion and Purchased Units in the Area.

Former Residents Renting Refers to Households Which Moved From the Conversion and Continue to Rent Units.

Previous Owners Refers to Households Which Formerly Owned Units in the Area and Now Reside in the Conversions as Owner or Renter.

Renters Buying Conversions Are Households Which Formerly Rented Units, Inside or Outside the Conversio and Bought Converted Units.

Renters Out of Conversion Refers to Households Not Residing in the Units at Time of Conversion; They Ma Currently Be Either Owner or Renter Occupants in the Conversion.

Pre and Postconversion Status of Households

To assess fully the effect of conversions on the housing market, it is first necessary to determine the preconversion and postconversion status of households which move to and from converted units.

Preconversion Status. The first part of the analysis concerns the previous tenure of households which will move to the converted property. When units are converted to condominiums or cooperatives, their new occupants consist of previous renter and homeowner households. The housing units that are vacated by these households are presumably available for other households to rent or buy. 3/

For every 100 rental housing units converted to condominium or cooperative ownership, 58 are occupied by households who were not occupants of the building before conversion. The following is known about these households: 4/

- 14 of them are former homeowners who buy 5/ (24% of 58);

The model is simplified to convey the immediate effect of households moving into converted units, households living in such units, and households moving from converted units. For example, no attempt is made to estimate the rents previously paid by renters moving into converted units and to relate them to the rent-paying capacity of tenants leaving the converted units. It is also assumed that no persons moving into or out of converted buildings are from outside the SMSA in which the unit is located; these type of cases were not found in the household survey, but they are likely to occur in some areas and should, therefore, be considered. Further, this model excludes all exogenous factors related to the households moving into, living in, or moving from converted units.

3/ This can be assumed unless the household was newly formed, including recently divorced or separated persons or young adults leaving home. For purposes of this analysis, it is assumed that households moving into converted units do not represent new household formations. The survey did not determine whether the household was newly formed or not.

4/ To simplify the discussion, and to standardize comparisons, a base of 100 converted units will be used for each comparison.

5/ Three of these households who were occupying owner units were not the owner nor did they pay rent. As a result, the tenure status of these units is uncertain. These households may have resulted from new household formations, or households whose employer provided housing, or other circumstances. For the purposes of this analysis, it was assumed that the units which were vacated will continue as owner units rather than rental units.

- 2 of them are former homeowners who rent from the converter (3% of 58);
- 27 of them are former renters who buy (47% of 58): and
- 15 of them are former renters, who rent from various parties including investor-owners (26% of 58).

Postconversion Status. Following conversion, unit occupants consist of renters and owners. For every 100 rental housing units converted to condominiums and cooperatives, 63 are occupied by owners and 37 by renters. 6/

Of the 63 owners:

- 14 are previous homeowners from outside the converted building (22% of 63);
- 27 are former renters from outside the converted building (43% of 63); and
- 22 are former tenants of the converted building (35% of 63).

Of the 37 renter households, 20 rented units in the converted building prior to the conversion; and 17 moved into the building from outside following the conversion.

The 20 households who were previous tenants in the building include:

- 11 who rent from the building's developer or converter (55% of 20);
- 7 who rent from investor-owners (35% of 20); and
- 2 who rent from other, unidentified parties (10% of 20).

6/ These consist of tenants who rent from investor-purchasers of converted units and those who rent from landlords and developers, either while conversion is occurring or after its completion. For a discussion of the possible future tenure status of renters in the converted building, see page VII-38, footnote 39.

The 17 households who moved into the converted building from outside consist of:

- 4 who rent from the building's developer or converter (23% of 17);
- 12 who rent from investor-owners (71% of 17); and
- 1 who rents from an unidentified party (6% of 17).

Following the conversion of 100 units, 58 households move out. Of these:

- 44 move to other rental units (76% of 58);
- 3 move to units as independent renter households and live rent free (5% of 58); and
- 11 purchase a housing unit elsewhere within the metropolitan area (19% of 58).

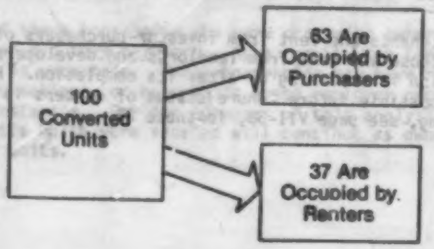
Changes in Supply and Demand

Given these changes in pre and postconversion status following the conversion of each 100 units of rental housing, it is possible to determine the changes in owner and rental supply as well as owner and rental demand attributed to conversions.

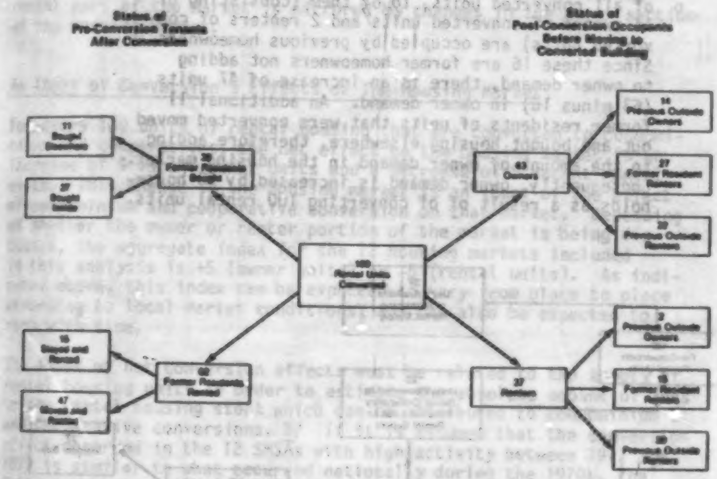
For purposes of this analysis, owner demand consists of the total number of owner-occupied housing units in the housing market and renter demand consists of the total number of renter-occupied units in the housing market. Conversely, owner supply consists of all housing units occupied by an owner or for sale for owner occupancy, and renter supply consists of all housing units occupied by a renter or vacant units which are for rent.

Renter Supply and Demand. For every 100 rental units converted to condominiums and cooperatives, the following is known:

- 63 units are lost to the rental supply because they are occupied by purchasers;



- of the 63 households who bought and occupy converted units, 49 were previous renters. In addition, of 58 former tenants in the converted building who moved out, 47 continued to rent and 11 bought other housing units. Considering these changes, renter demand is decreased by 60 households, i.e., the 49 renter households who purchased converted units and the 11 former tenants who bought housing after moving from converted units. However, since two previous homeowners moved to converted units as renters, two households are added to renter demand. Consequently, renter demand is actually decreased by 58 households as a result of the conversion of 100 units. 7/


Status of
Pre-Conversion Tenants
After Conversion
Status of
Post-Conversion Occupants
Before Moving to
Converted Building
11 Bought Elsewhere
27 Bought Units
38 Former Residents Bought
15 Stayed and Rented
47 Moved and Rented
62 Former Residents Rented
100 Rental Units Converted
63 Owners
14 Previous Outside Owners
27 Former Resident Renters
22 Previous Outside Renters
37 Renters
2 Previous Outside Owners
15 Former Resident Renters
20 Previous Outside Renters

Again, there is a difference in the degree of change in supply and demand factors. The supply of rental units decreases more than renter demand for this reason: 27 former renters from outside the converted building move to the building and buy units; 15 former renters move to a converted building where they will continue to rent units; hence, 42 rental vacancies occur outside of the converted building. Forty-seven former tenants of a converted building move elsewhere

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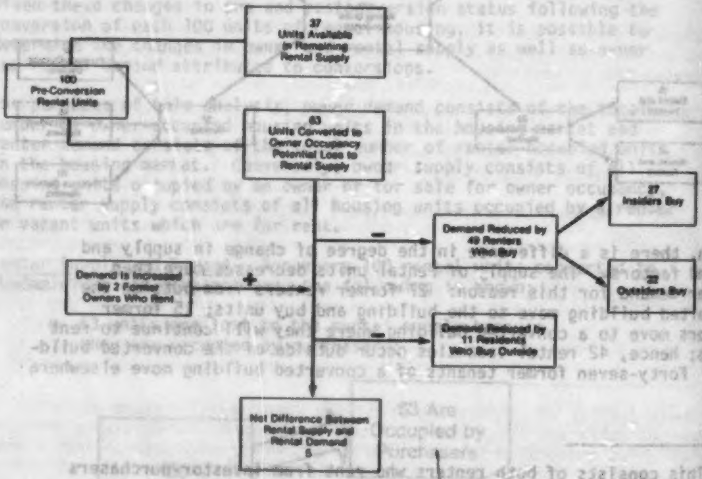
7/ This consists of both renters who rent from investor-purchasers or converters, either while conversion is occuring or after it is completed. (See chapter VI for additional information.)

but continue to rent. Although 42 vacant units resulted from conversion, 47 vacant units were needed. Thus, for every 100 units converted, a net of 5 previously vacant units in the rental housing market became occupied.

Owner Supply and Demand. For every 100 rental housing units converted to condominiums or cooperatives, the following is known:

- 63 of these units are occupied by owners. Thus, the supply of owner occupied units in the housing market is increased by 63; and
- of all converted units, 16 of them (consisting of 14 owners of converted units and 2 renters of converted units) are occupied by previous homeowners. Since these 16 are former homeowners not adding to owner demand, there is an increase of 47 units (63 minus 16) in owner demand. An additional 11 former residents of units that were converted moved out and bought housing elsewhere, therefore adding to the amount of owner demand in the housing market. Consequently, owner demand is increased by 58 households as a result of of converting 100 rental units.


37
Units Available
in Remaining
Rental Supply
100
Pre-Conversion
Rental Units
63
Units Converted to
Owner Occupancy
Potential Loss to
Rental Supply
27
Insiders Buy
–
Demand Reduced by
49 Renters
Who Buy
Demand is Increased
by 2 Former
Owners Who Rent
+
22
Outsiders Buy
–
Demand Reduced by
11 Residents
Who Buy Outside
Net Difference Between
Rental Supply and
Rental Demand
5

After conversion owner supply (63) increased more than owner demand (58) because more owner units were available for purchase than there were households to buy them. That is, 16 previous homeowners bought converted units and their former housing became vacant. Simultaneously, 11 households which formerly rented in the converted building bought vacant owner units. As a result, a net of 5 vacant owner units are created in the housing market by the conversion of 100 units.

In summary, the conversion of 100 rental units results in a net number of 58 households changing from renter to owner status: 63 rental units changing to owner units; a net addition of five vacant units for sale, and 5 less vacant rental units. In each area, the change in the rental part of the market is mirrored by changes in the owner section of the housing market.

An Index of Conversion's Effects on The Housing Market

For every 100 units of rental housing that are converted to condominiums and cooperatives, the net effect on the housing market is an increase of 5 vacant owner units and a decrease of 5 vacant rental units. This change in the housing market is an index of the effect of condominium and cooperative conversion on that market. Depending on whether the owner or renter portion of the market is being discussed, the aggregate index for the 12 housing markets included in this analysis is +5 (owner units) or -5 (rental units). As indicated above, this index can be expected to vary from place to place according to local market conditions, and can also be expected to vary with time.

The index of net conversion effects must be related to the supply of rental housing units in order to estimate the absolute amount of loss to the rental housing stock which can be attributed to condominium and cooperative conversions. 8/ If it is assumed that the conversion effect observed in the 12 SMSAs with high activity between 1977 and 1979 is similar to what occurred nationally during the 1970s, the following took place: between 1970 and 1979, 366,000 units were converted; the Nation's rental housing supply was reduced by 231,000 units; renter demand fell by 212,000 households; and a net total of 18,000 previously vacant rental units were occupied by former tenants of converted buildings. 9/

8/ Chart VII-1 presents the components of the model of housing market changes resulting from conversion as they affect the rental housing market.

9/ This assumption is supported by the data, since 69 percent of all conversions occurred between 1977 and 1979 and, of these conversions, 57 percent took place in the 12 high activity SMSAs.

TABLE VII-1

PERCENT OF RENTAL HOUSING CONVERTED, WITH CHANGES IN COMPONENTS OF RENTAL HOUSING MARKET RESULTING FROM CONVERSIONS

	1970-75	1976	1977	1978	1979 (3 Quarters)	Total 1970-79	Total 1977-79
Occupied Rental Housing 1/	25,656,000	26,101,000	26,515,000	26,515,000	26,515,000	26,515,000	26,515,000
Total Conversion 2/	85,746	19,976	45,527	80,334	114,893	346,476	240,754
Percent Converted	.32	.08	.17	.30	.43	1.31	.91
Loss of Units to Rental Supply 3/	54,020	12,585	28,682	50,610	72,383	218,280	151,675
Drop in Renter Demand 4/	49,733	11,586	26,406	46,594	66,638	200,956	139,637
Net Shortfall of Rental Supply 5/	4,287	999	2,276	4,017	5,745	17,324	12,038
Net Shortfall of Rental Supply as Percent of Rental Supply	.017	.004	.009	.016	.022	.065	.045

1/ Annual Housing Survey, Series H-150-75,-76,-77, Bureau of the Census, Washington, D.C., 1976-77-78. The 1977 figure is used for 1978 and 1979.

2/ Department of Housing and Urban Development, Field Interviews in 37 SMSAs Conducted by HUD Staff, September and November 1979.

3/ Sixty-three percent of the converted units were owner-occupied after conversion. The remaining 37 percent were rented out by their owners. Field Interviews, *Ibid*.

4/ Forty-nine percent of those who bought converted units had previously rented, and 11 percent of the renters who moved from the converted building bought housing elsewhere. However, 2 percent of those who moved into the converted building as renters were former homeowners; hence renter demand has dropped by 58 percent of the total units converted. Field Interviews, *Ibid*.

5/ Forty-two percent of the current residents had rented units elsewhere; 27 percent are now owners and 15 percent are renters in the converted building. However, 47 percent of all former residents now rent outside of the converted building, resulting in a net shortfall of rental supply equal to 5 percent of all converted units.

The figure of 18,000 represents the net number of renter households moving from converted units to rental units elsewhere. Eighteen thousand units represent .065 percent of the Nation's occupied rental housing supply. Thus, the net effect of all conversion activity occurring between 1970 and 1979 has been to increase the Nation's occupied rental supply by 18,000 units and to decrease the Nation's rental vacancies by a corresponding 18,000 units. 10/

Conversion and Other Changes in the Rental Market

The influence on conversions may also be related to the other components of change in the rental housing market. In order to illustrate this relationship, these changes will be discussed for the 1977 rental housing market. (See table VII-2.)

The rental housing supply experienced several major changes in 1977. There were an additional 567,000 rental units built, but the rental supply decreased by 481,000 units, including 51,000 units converted to condominium or cooperative ownership. Therefore, the net result is an increase of 86,000 rental units (567,000 new units minus 481,000 units removed from the rental stock). The 86,000 figure represents only .31 percent of the 1977 rental supply, and converted units accounted for 11 percent of the total decline in the 1977 rental stock. 11/

The 1977 demand for rental housing increased by the 595,000 new households formed that year, while demand for rentals decreased by the net number of 202,000 former renter households which bought housing in 1977. Of the net number of former renter households

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10/ The U.S. rental housing stock figure is for 1977, the last year for which reliable national housing estimates are available.

11/ According to the Survey of Current and Former Residents, 63 percent of all converted units were owner occupied; 19 percent were occupied by households renting from an investor-purchaser, and 18 percent were occupied by households renting from a converter. Because the future tenure status of the households renting from a converter is uncertain, this analysis assumes that the proportion of units rented from converters (18%) are in an interim stage of the conversion process and will soon become owner occupied. Therefore, it is assumed that 81 percent of all converted units are owner occupied. As a result of these two assumptions, the analysis overstates by 11,000 owner-occupied units the actual number of such units converted in the 1977 period.

purchasing housing, 51,000 (25%) bought converted units. Therefore the net increase in rental demand for 1977 is 393,000 households, or 1.43 percent of all households renting units in 1977.

The net result of changes in the supply of and demand for rental housing is an insufficient number of rental units to meet renter demand. A net total of 307,000 units were required to meet new rental demand (393,000, the net increase in rental demand, minus 86,000, the net increase in rental units). The 307,000 units represent 1.09 percent of the 1977 rental housing supply. Thus, the overall net effect of conversions on the 1977 national rental market was 11 percent of the reductions in the overall rental stock; 25 percent of the total reduction in rental demand; and 17 percent of the shortfall in the supply of rental housing units. 12/

Strategy for Projecting Conversion Activity

The interaction of supply and demand also has a significant impact on the number of conversions likely to occur. In the following section, the number of rental housing units which will be converted between 1980 and 1985 is projected. The projection accounts for the supply of rental housing units suitable for conversion and the extent of owner demand for converted units by different types of households. While the preceding analysis focuses on the direct influence of conversions on housing units and households in the recent past, the analysis here considers the effect of converted units in the larger context of the overall housing market between 1980 and 1985.

Several factors make it difficult to project conversion activity. First, large-scale conversions are a relatively recent real estate phenomenon. Before 1970, isolated conversions occurred, but most growth took place after that year, with the bulk occurring since 1976. Second, no major studies describe the influence of various housing market changes, such as rising interest rates, on conversion activity. Third, the relative lack of knowledge about conversion activity over time and under various market conditions means that any model or procedure for projecting conversions must be based upon reasonable, but

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12/ If it is assumed that 63 percent (rather than 81 percent) of all converted units are owner occupied, the net effect of conversion on the 1977 national rental market is 9 percent of the reduction in the overall rental supply, 20 percent of the reduction in renter demand, and 14 percent of the shortfall in the supply of rental housing.

TABLE VII-2

INFLUENCE OF CONVERSIONS ON THE U.S. RENTAL HOUSING MARKET, 1977

Components of Rental Housing Market	Renter Demand Due New Household Formation	New Rental Units	Conversions to Condo/Co-op Ownership	Renter to Owner Tenure Shift	Rental Removals From Inventory	Net Change for 1977 Total Rental Housing		Percent Change Due to Conversions
						Number	Percent	
1977 rental market aggregate estimates	595,000 1/	567,000 2/	51,000 3/	151,000 4/	430,000 5/	-	-	
Rental housing supply		+567,000	-51,000		-430,000	+86,000	+.31	-10.60 6/
Renter household demand	+595,000		-51,000	-151,000		+393,000	+1.48	-25.25 7/
Shortfall of rental housing units compared to rental demand	-	-	-	-	-	307,000	1.09	16.61 8/

Source: U.S. Bureau of Census, Series H-150-77, Annual Housing Survey, Part A, GPO, Washington, D.C., 1979; Field Interviews/Study, op. cit.

1/ There was an average increase of 1,691,000 households per year in the 1970-77 period. In 1977, renter households were 35.2 percent of all households. Thus, 1,691,00 multiplied by 35.2 percent results in 595,000 additional rental households in 1977.

2/ There were a total of 4,539,000 rental units built between 1970-77, or an average of 567,000 per year. This total includes single-family units built since 1970 and now occupied as rentals.

3/ There were 45,000 conversions in 1977 and 80,000 conversions in 1978, for an average of 63,000 converted units. The two years are averaged to make the 1977 conversion total more representative of the 1977-79 period of conversion. Also, 19 percent are owned by investors and will remain renters, for a total of 51,000 owner occupied units.

4/ This figure is from the table on changes in household composition, formation, and tenure; a net total of 202,000 households per year (in the 1970-77 period) shifted from renter to owner status. If 51,000 renter to owner shifts are due to conversions, 151,000 renter to owner shifts occur outside of conversions.

5/ There are a total of 1,721,000 rental units which existed in 1973 and were removed from the housing inventory by 1977, or an average of 430,000 units per year.

6/ Conversions are 11 percent of the total loss of rental stock, including both conversions and removals from the rental inventory.

7/ Conversions account for 25 percent of the decrease in renter demand, including that due to conversions and other factors.

8/ Conversions account for 17 percent of the total amount of shortfall of rental housing units compared to the increase in renter household demand.

necessarily arbitrary, assumptions concerning the role conversions will play in the 1980-85 housing market. Fourth, although national projections should be based on the sum of projected conversions at all local levels, this is a very complex process, and necessary data are lacking. To project conversion activity from 1980 to 1985, these approaches are used.

- A trend-line projection is developed, based upon 1977-79 conversion trends for the 37 largest SMSAs and the remaining areas of the Nation. The resulting projection is based on the recent expansion of conversion activity, exclusive of any supply or demand constraints.
- Following this, the trend-line projection is modified by considering (at the SMSA level) possible limits on the potential supply of rental units appropriate for conversion. This illustrates the effect of a diminishing supply of suitable rental units on future conversion activity.
- In a third step, the trend-line projections are related to demand considerations. These factors include the types of households which buy converted units and the income restrictions households face in purchasing housing.
- Next, estimates of future conversion activity provided by local government officials in jurisdictions outside the 37 largest SMSAs allow an evaluation of future activity in the balance of the Nation.
- Factors other than the supply of and demand for converted units are considered, too. The political or legal actions of governments, general economic constraints, and demographic issues are taken into account in this step.
- Finally, future conversion activity is described in terms of "most likely" and "least likely" scenarios.

A Trend-Line Projection of Conversion Activity: 1980-85

The first step in projecting conversion activity is to examine local trends throughout the country from 1977 to 1979, a period in which conversion activity expanded greatly. Since a few areas experienced

TABLE VII-3

TREND-LINE PROJECTION OF CONVERSION ACTIVITY, 1980-85 BASED ON 1977-79 LOCAL TRENDS

Projection Years	37 Largest SMSAs 12 High Activity SMSAs	 25 Other Large SMSAs	Balance of United States	Total United States
1980	67,150	26,227	37,573	130,950
1981	84,634	35,548	55,188	175,370
1982	102,018	44,869	72,803	219,690
1983	119,787	54,190	90,418	264,395
1984	138,452	63,779	108,033	310,264
1985	157,117	73,406	125,648	356,171
1980-85 Total	669,158	298,019	489,663	1,456,840

a decrease in the pace of conversions during this time 13/, a projection of these trends suggests that the number of units likely to be converted in 1980 is 4,000 units less than the 135,000 converted during 1979. 14/ In 1981, conversions will increase by an average of 45,000 units per year until 1985. These projections are derived from 38 separate trends, one for each of the 37 largest SMSAs and one for the balance of the United States. Based on the projected annual increases (exclusive of supply, demand, or other considerations), it is estimated that 1,457,000 rental units will be converted to condominium or cooperative ownership between 1980 and 1985. This compares to 366,000 units converted between 1970 and 1979.

13/ The trend-line projection for each of the 37 SMSAs and the areas outside the 37 SMSAs uses as a base the 1977-79 average number of conversions. Each year, the 1977-79 average number of conversions is increased or decreased by the average change in the level of conversion activity from 1977 to 1978 and from 1978 to 1979, where the 1979 figure is inflated to reflect a full 12 months of conversion activity. In most cases, this results in the highest number of conversions likely to occur in an SMSA, reflecting the continuation of recent trends. Table VII-3 presents, in summary form, the results for the 37 largest SMSAs and the balance of the U.S.

14/ The February 1, 1980 issue of U.S. Housing Markets, published by Citicorp, predicts the same level of conversion activity for 1980 as for 1979, i.e., 145,000 units. The Citicorp estimate is 10,000 units more than the projection presented here.

Among the 12 SMSAs with high levels of conversion activity, an annual increase of about 18,000 conversions over the 1977-79 base is projected through 1985. This means 669,000 units will be converted in the 1980-85 period in these areas. During the 1977-79 period, conversions declined in three central cities of these SMSAs, 15/ and, therefore, projected conversion activity in each of these cities is reduced by a number which corresponds to the annual declines in 1977, 1978, and 1979. In each case, however, it is expected that units will continue to be converted in suburban areas after activity has slowed in the central city.

Conversion activity in 25 other large SMSAs is projected to rise at the rate of 9,000 units per year over the 1977-79 annual average for a total of 298,000 conversions from 1980 to 1985. Although conversion activity in these 25 areas has been generally moderate, several central cities and suburbs experienced declines in 1977-79. As a result, conversions may cease before 1985 in these low activity locations. 16/

The most noteworthy growth in recent years occurred outside the 37 largest SMSAs. Conversions in the balance of the nation increased from 5,000 in 1977 to 40,000 in 1979, representing an annual growth rate of 18,000 units. From 1980 to 1985, it is projected that 490,000 units will be converted in these areas.

To Recap. Based on trend-line projections, it is estimated that between 1980 and 1985, 1,457,000 rental units will be converted to condominium or cooperative ownership. Of these units, 669,000 will be located in the 12 SMSAs with high levels of conversion activity; 298,000 will be in the 25 other large SMSAs and 490,000 units will be in the remaining areas of the nation.

Constraints on Future Conversions Related to the Supply of Rental Units Suitable for Conversion

To determine the effect of supply constraints, an estimate is first made of the occupied rental housing supply appropriate for conversion. This estimate is then compared to the number of conversions projected for 1980-85. Based on this comparison, any necessary adjustments are made to the trend-line projection.

15/ The central cities with declining activity are Houston, Los Angeles-Long Beach, and San Francisco-Oakland.

16/ The central cities with declining activity between 1977 and 1979 are San Diego and Riverside, California. Suburbs with declining activity are located in the Buffalo, Milwaukee, Newark, and Pittsburgh SMSAs.

By examining the remaining rental housing stock, it is possible to estimate the proportion of the housing stock with characteristics similar to buildings converted in the past. This proportion is considered "convertible."

Two attributes of rental properties are particularly significant in selecting candidates for conversion: (1) the condition of the structure; and (2) the desirability of, or demand for, the units. 17/ Well-maintained rental properties with relatively new mechanical systems and structural components are usually considered the most suitable for conversion. Likewise, buildings with desirable locations, sought after amenities, and status or prestige are appropriate conversion candidates. To measure the condition and desirability of the Nation's rental housing stock, two reasonable surrogates are used. A rental building's age serves as a proxy for its condition, and the rent level (relative to the median rent in the community) is a proxy for a building's desirability. For purposes of this analysis, these measures are used to distinguish among three types of rental units (See table VII-4.):

o Prime buildings. Buildings with prime conversion potential have units which rent for 150 percent or more of the local median rent and were built after 1965. The buildings have relatively modern, good quality mechanical systems and structural components; are in excellent locations; and have desirable amenities. Units in such buildings now comprise 5.5 percent of the Nation's occupied rental stock as of 1977.

o Marginal buildings. Buildings with marginal conversion potential have units which rent for 125 to 150 percent of the local median rent and were built after 1965. Their condition is probably as good as buildings in the "prime" category, but various factors make them slightly less desirable than the more expensive rentals. This category contains 5.4 percent of the Nation's 1977 occupied rental stock.

o Rehabilitation buildings. Buildings which have conversion potential only after rehabilitation were built before 1965 and have units which rent for 125 percent or more of local median rent. They are likely to be desirable rental properties,

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7/ These factors emerged during extensive discussions with persons who re associated with condominium and cooperative conversions across the ation. They are corroborated in many local studies on the topic and n numerous accounts of conversion which appear in the printed media. ppendix 1 provides an annotated bibliography of the printed material.

TABLE VII-4
1977 NATIONAL RENTAL HOUSING SUPPLY OF POTENTIAL CONVERTIBLE UNITS AND PERCENT OF OCCUPIED RENTAL UNITS 1/

	Single Family Attached		2 to 4 Units		5 or More Units		Total	
United States	Number	% of Rental	Number	% of Rentals	Number	% of Rentals	Number	% of Rental
Prime Potential Conversions (150% or more of Median Rent)	136,653	0.52	309,959	1.17	1,012,602	3.82	1,459,214	5.50
Built Since 1970	97,142	0.37	207,817	0.78	675,900	2.55	980,859	3.70
Built 1965-1970	39,511	0.15	102,142	0.39	336,702	1.27	478,355	1.80
Marginal Potential Conversions (125 to 150% of Median Rent)	55,923	0.21	265,609	1.00	1,102,229	4.16	1,423,761	5.37
Built Since 1970	24,445	0.09	171,877	0.65	675,374	2.55	871,696	3.29
Built 1965-1970	31,478	0.12	93,732	0.35	426,855	1.61	552,065	2.08
Rehabilitation Potential Conversions (Built Before 1965)	161,050	0.61	1,047,275	3.95	1,293,081	4.88	2,501,406	9.43
150% or more of Median Rent	83,571	0.32	476,573	1.80	621,615	2.34	1,181,759	4.46
125-150% of Median Rent	77,479	0.29	570,702	2.15	671,466	2.53	1,319,647	4.98
Total Potential Conversions	353,626	1.33	1,622,843	6.12	3,407,912	12.85	5,384,381	20.31

Source: 1977 National Annual Housing Survey Tape, U.S. Department of Commerce, Bureau of Census, Washington, D.C.

1/ Renter occupied units in 1977 numbered 26,515,000.

but they may require replacement or substantial repair of some of their major structural components and mechanical systems, parking areas, and grounds. To convert these buildings generally requires more knowledge of rehabilitation techniques than is needed for the "as is" conversions usually performed in prime and marginal buildings. Therefore, it takes longer and costs more to convert these buildings. This last type of housing stock constitutes the principal source of convertible units in older cities such as Boston and Hartford. Rehabilitation units constitutes 9.4 percent of the Nation's occupied rental stock. (See table VII-4.)

Together, these categories represent 20.3 percent of the Nation's total rental supply suitable for conversion. 18/ (See table VII-4.) When the proportion of the rental stock which was converted between 1977 and 1979 (.9 %) is subtracted from this percentage, 19.4 percent of the remaining rental stock is "convertible." As of January 1980, 19.4 percent is equal to 5,134,400 rental units. Within this group, 11 SMSAs with high conversion activity contain 1,376,100 convertible units. This number represents 27 percent of all units with conversion potential and 19 percent of the rental housing supply in the 11 SMSAs. It is estimated that the remaining 21 large SMSAs have 779,500 rental

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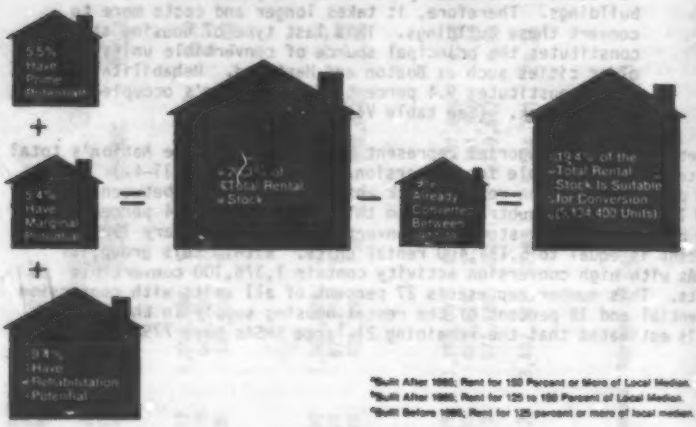
18/ This may be disaggregated as follows: 1.3 percent are single-family attached units; 6.1 percent of the units are in buildings of two to four units; and 12.9 percent are in buildings with five or more units. Single-family attached units refer to row houses or townhouses, where no other units are above or below the unit. These conversions have been quite popular in many areas. Other additional factors should be considered concerning the potential for future conversions. First, some developers are building multi-family rentals with the intention of renting them for several years, depreciating the building, and then converting the units to condominiums or cooperatives. To the extent that this occurs, these newly built multifamily rentals will provide stock for future conversions. Second, as the cost of purchasing newer rental properties continues to escalate relative to the potential profit from a conversion, rental units which are now considered undesirable, e.g., low rent buildings in revitalizing areas, may become attractive candidates for conversion. The potential for conversion is limited only by the ingenuity and skill of developers and, of course, by the demand for converted units.

units appropriate for conversion; this is equivalent to 17 percent of the rental stock in these areas and 15 percent of the country's convertible rental housing. 19/

Percentage of the Nation's Total Rental Stock Suitable for Conversion


5.5% Have Prime Potential
+
5.4% Have Marginal Potential
+
9.4% Have Rehabilitation Potential
=
20.3% of Total Rental Stock
–
Already Converted Between
=
19.4% of the Total Rental Stock Is Suitable for Conversion (5,134,400 Units)

aBuilt After 1965; Rent for 150 Percent or More of Local Median.
bBuilt After 1965; Rent for 125 to 150 Percent of Local Median.
cBuilt Before 1965; Rent for 125 percent or more of local median.

Among units located outside of these 32 SMSAs, 2,978,800 (or 20.5% of the occupied rental stock in these areas) have conversion potential. Overall, 58 percent of the Nation's convertible rental units are located outside of the 32 largest metropolitan areas. The likelihood that these units will actually be converted to condominiums and cooperatives depends on whether the conversion trend, which began in and around the largest cities of the Nation, diffuses to the remainder of the country. Evidence indicates this may already be happening. Local observers in smaller metropolitan areas such

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19/ During the 1973-76 period, Annual Housing Surveys were not conducted in the SMSAs for Hartford, Nassau-Suffolk, San Antonio, San Jose, and Tampa-St. Petersburg. Therefore, data are not available to estimate the convertible rental stock in these areas. In addition, Fort Worth was not part of the Dallas-Fort Worth SMSA during this period. Information presented is only for Dallas.

as Lansing, Michigan; Madison, Wisconsin; Raleigh, North Carolina; and Eugene, Oregon, report that conversions have begun there and will increase in the near future. 20/

Although there is no way to determine how widespread conversions will ultimately become, these data suggest that it will be some time before the Nation's supply of convertible rental units is exhausted. In some localities, however, that supply is already low and may be nearly exhausted by 1985. Developers in some communities, such as Houston, believe that the convertible supply is nearly depleted. 21/

Similarly, as SMSAs exhaust their supply of units with conversion potential, large-scale converters, in particular, may move to markets where the supply of rental buildings suitable for conversion is more plentiful. The few remaining convertible units will be left to smaller converters. To some extent, this has already happened in areas such as Denver and Chicago. 22/

To Recap. Of the Nation's occupied rental housing supply, 5,134,400 units are appropriate for conversion. Eleven high conversion

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20/ U.S. Department of Housing and Urban Development, Field Interviews in 37 SMSAs Conducted by HUD staff, September and November 1979. In addition, a survey of apartment managers in the U.S. indicates that about 5 percent of the apartment units in smaller cities (less than 50,000 people) are currently being considered for conversion. Four percent of the units are considered somewhat likely to be converted. In larger cities (50,000 to 250,000 people), 15 percent of the apartment units are being considered for conversion, and 4 percent are somewhat likely to be converted. About 12 percent of the apartment units in the largest cities (more than 250,000 people) are being considered for conversion, and 9 percent are very or somewhat likely to be converted. Suburbs of the largest cities are expecting the most conversions: 21 percent of the units are being considered for conversion, and 21 percent are very or somewhat likely to be converted. See table VII-3 Appendix for details.

21/ Although some local developers in Houston believe that the supply of converted units has become depleted, the analysis contained herein suggests that there are a large number of additional convertible units in that city. This apparent contradiction reflects a strong rental housing market, high demand for newer rentals, extensive in-migration, and a vigorous competition between converted units and new, lower priced, single-family homes. Thus, a large share of the rental stock appropriate for conversion is still subject to demand from renters willing to pay higher rents and to competition from builders of new condominiums and single-family homes.

22/ See footnote 20.

activity SMSAs have 1,376,100 of these units; the 21 other large SMSAs have 779,500 of these units; and the balance of the nation has 2,978,800 units with conversion potential.

If the projected number of converted units is compared to the number of units suitable for conversion, it is estimated that five SMSAs will exhaust their stock of convertible housing before the end of 1985. However, since the number of convertible units is based on Annual Housing Surveys conducted between 1974 and 1976, it is likely that multi-family units built since the Surveys will become additional candidates for conversion. In this analysis, it is assumed that all multi-family rental units built between 1976 and 1980 will be considered for conversion within five years of their construction if an SMSA's supply of convertible units is otherwise exhausted. After adding these newly built units to the supply of convertible units in these five SMSAs, it is estimated that three of them will have a sufficient supply of units to continue their 1977-79 rate of conversion. The remaining SMSAs will be unable to sustain the 1977-79 conversion pace.

It should be noted that in some metropolitan areas, few unsubsidized multi-family rental units have been constructed in recent years. Therefore, in these particular markets, this source of potential conversions may be limited. In addition, once the supply of potential conversions is exhausted in an SMSA, it is possible that the perception of what type of unit is suitable for conversion may change. If this occurs, more modest, less desirable units not considered in this analysis may be converted.

Based on the preceding analysis of supply constraints, conversion activity between 1980 and 1985 cannot proceed at the 1977-79 rate in the 12 high activity SMSAs, taken in the aggregate. In the other 25 SMSAs, and in the balance of the country, conversions could continue at their 1977-79 pace through 1985.

When limits on the supply of convertible units are considered, the modified trend-line projection indicates that 1,374,000 units will be converted between 1980 and 1985. (See table VII-5.) This amounts to 5 percent of the country's occupied rental stock. Among the 12 SMSAs with high conversion activity, about 8 percent of the rental stock can be expected to convert. This compares to 6 percent of the stock for the 25 other large SMSAs and 4 percent of the stock for the balance of the nation.

To Recap. After modifying the trend-line projection to account for limits in the supply of convertible units, it is estimated that 1,374,000 rental units will be converted between 1980 and 1985. Of these units, 586,000 are located in the 12 SMSAs which have had high conversion activty; 298,000 are located in 25 other large SMSAs; and 490,000 are located in the remainder of the country.

TABLE VII-5

TREND-LINE PROJECTION OF CONVERSION ACTIVITY, 1980-85 MODIFIED BY LIMITS IN THE SUPPLY OF CONVERTIBLE UNITS

Projection Year	12 High Activity SMSA	25 Other Large SMSAs	Balance of U.S.	Total U.S.
1980	67,150	26,227	37,573	130,950
1981	77,982	35,548	55,188	168,718
1982	74,794	44,869	72,803	192,466
1983	107,853	54,190	90,418	252,461
1984	121,942	63,779	108,033	293,754
1985	136,227	73,406	125,648	335,281
1980-85 Total	585,948	298,019	489,663	1,373,613

onstraints on Future Conversions Related to Household Demand

hus far, the discussion has proceeded under the assumption that con-ersion activity will continue at the 1977-79 rate, with some modifi-ation to allow for supply constraints. However, it is not self-vident that the demand for converted units will sustain this pro-ected level of activity. If, for example, the rate of household ormation and tenure changes from renter to owner status should iffer from recent trends, the number of households wishing to buy onverted units could increase or decrease.

ossible constraints on future demand for converted units are deter-ined, as follows:

- o First, owner and renter demand and the characteristics of that demand over the 1980 to 1985 period are estimated. This provides information on the types of households expected to purchase housing in the 1980-85 period.
- o Second, the number and characteristics of households purchasing converted units between 1977 and 1979 are used to predict the number and type of households expected to buy converted units from 1980 to 1985.
- o Third, a comparison is made between the estimated number of households expected to buy any housing unit and those expected to purchase units projected for conversion. This comparison produces the "share of the new home buyers market" (by household type)

which converted units must attract if all units projected for conversion are to be sold.

Estimation of Household Formation and Owner Demand by Household Type and Income. The estimated total housing demand for 1980 to 1985 is 88,808,000 occupied housing units. 23/ Of this number, 59,147,000 units (67 percent) are projected to be owner occupied and 29,661,000 units (33 percent) are projected to be renter occupied. 24/ The components of this projected demand are extrapolated from the average annual amount of new household formation between 1970 and 1977 (1,691,000 yearly) and from the shifts of renter to owner status which have occurred during the same period (202,000 yearly).

23/ The estimated demand for occupied housing units between 1980 and 1985 is extrapolated from the average annual increase in the number of households. Census projections are not utilized because they do not include tenure status and household types, which are necessary for this analysis. However, the parameters of these projections are generally in agreement with Census projections, as they are used by other housing demand projections. See Footnote 24 for more details. A more detailed explanation of the procedure used may be found in Appendix 2. Table VII-6 presents the results of this analysis for different household types, after projecting the 1970-77 trends to 1985, an eight year period. A table presenting projections in demand for units by household income is contained in table VII-1 Appendix.

24/ In general, the results of this study are comparable to other recently developed housing demand projections. In a 1979 report by Pitkin and Masnick (see Appendix 2), the projected number of households, homeowners, and renters are very similar to those found in this study. On the other hand, there is a 21 percent difference between the two studies in the number of projected cooperative owners. This variation may be explained by the striking differences between demand for multi-family ownership in the 1970-75 period studied by Pitkin and Masnick and the 1977-79 period used in this study. Other studies (more fully described in Appendix 2) contain estimates of total demand, or renter and owner demand, which are also comparable to those in this study. Marcin (1977) describes the types of households which will demand multi-family owner units, but concludes that such households will continue to buy single-family units. A study by Sternlieb and Burchell (1978) estimates a total renter demand which is comparable to this study. However, their findings differ on the distribution of household types which will rent housing in the 1980-85 period. Another study by Weicher, et al. (1980), develops a series of owner demand projections which seem to be closely related to the projections contained herein. These studies are described in greater detail in Appendix 2.

CHANGES IN HOUSEHOLD COMPOSITION, HOUSING FORMATION, AND HOUSING TENURE BY HOUSEHOLD COMPOSITION, 1970-1977, PROJECTIONS TO 1985, UNITED STATES 1/

(In Thousands)

Household Composition by Tenure Total United States	1970 Number	1970 Percent	1977 Number	1977 Percent	1977 Expected Number 1/	Annual Net Shift	1985 Projection Net Change Since 1977	1985 Projection Total Household
Total Occupied Units	63,445	100.0	75,280	100.0	75,280	+1691	13,528	88,808
Owner	39,886	62.9	48,765	64.8	47,351	+ 202	10,382	59,147
Renter	23,560	37.1	26,515	35.2	27,929	- 202	3,416	29,661
2 or More Person Households	52,295	100.0	59,483	100.0	59,483	+1027	8,216	67,699
Owner	35,124	67.2	42,088	70.8	39,973	+ 302	8,233	50,321
Renter	17,171	32.8	17,395	29.2	19,510	- 302	- 17	17,378
Male-Headed, Wife Present	43,565	100.0	47,022	100.0	47,022	+ 494	3,952	50,974
Owner	30,806	70.7	36,274	77.1	33,245	+ 433	6,511	42,785
Renter	12,759	29.3	10,748	22.9	13,777	- 433	-2,559	8,189
Other Male Head	2,441	100.0	3,718	100.0	3,718	+ 182	1,456	5,174
Owner	1,298	53.2	1,775	47.7	1,978	- 29	463	2,238
Renter	1,143	46.8	1,943	52.3	1,740	+ 29	993	2,936
Female Head	6,289	100.0	8,744	100.0	8,744	+ 351	2,808	11,552
Owner	3,019	48.0	4,039	46.2	4,197	- 23	1,113	5,152
Renter	3,270	52.0	4,705	53.8	4,547	+ 23	1,695	6,400
One Person Household	11,151	100.0	15,796	100.0	15,796	+ 664	5,312	21,108
Owner	4,762	42.7	6,677	42.3	6.745	- 10	2,167	8,844
Renter	6,389	57.3	9,119	57.7	9,051	+ 10	3,145	12,264

1/ 1970 percentage applied to 1977 total.

TABLE VII-6, Cont'd.

CHANGES IN HOUSEHOLD COMPOSITION, HOUSEHOLD FORMATION, AND HOUSING TENURE BY HOUSEHOLD COMPOSITION, 1970-1977, WITH PROJECTIONS TO 1985, UNITED STATES 1/

(In Thousands)

Household Composition by Tenure Total United States	1970		1977		1977 Expected	Annual	1985 Projection	
	Number	Percent	Number	Percent	Number 1/	Net Shift	Net Change Since 1977	Total Household
Male Head	3,933	100.0	6,036	100.0	6,036	+300	2,400	8,436
Owner	1,329	33.8	1,988	32.9	2,040	- 7	734	2,722
Renter	2,604	66.2	4,048	67.1	3,996	+ 7	1,666	5,714
Female Head	7,218	100.0	9,760	100.0	9,760	+363	2,904	12,664
Owner	3,433	47.6	4,689	48.0	4,646	+ 6	1,442	6,131
Renter	3,785	52.4	5,071	52.0	5,114	- 6	1,462	6,533
2 or More Person Household Male Head, Wife Present Under 25 Years	3,082	100.0	3,010	100.0	3,010	- 10	- 80	2,930
Owner	800	26.0	1,064	35.3	783	+ 40	292	1,356
Renter	2,282	74.0	1,946	64.7	2,227	- 40	- 372	1,574
25 to 34 Years	9,129	100.0	11,236	100.0	11,236	+301	2,408	13,644
Owner	5,190	56.9	7,400	65.9	6,392	+144	2,739	10,140
Renter	3,939	43.1	3,835	34.1	4,844	-144	- 331	3,504
35 to 44 Years	9,251	100.0	9,397	100.0	9,397	+ 21	168	9,565
Owner	7,097	76.7	7,754	82.5	7,207	+ 78	763	8,517
Renter	2,154	23.3	1,643	17.5	2,190	- 78	- 595	1,048

1/ 1970 percentage applied to 1977 total.

TABLE VII-6, Cont'd.

CHANGES IN HOUSEHOLD COMPOSITION, HOUSING FORMATION, AND HOUSING TENURE BY HOUSEHOLD COMPOSITION, 1970-1977, WITH PROJECTIONS TO 1985, UNITED STATES

(In Thousands)

Household Composition by Tenure Total United States	1970 Number	1970 Percent	1977 Number	1977 Percent	1977 Expected Number 1/	Annual Net Shift	1985 Projection Net Change Since 1977	1985 Projection Total Household
45 to 64 Years	16,378	100.0	16,710	100.0	16,710	+ 47	376	17,086
Owner	13,230	80.8	14,505	86.8	13,502	+ 143	1,470	15,975
Renter	3,148	19.2	2,205	13.2	3,208	- 143	-1,094	1,111
65 Years and Over	5,726	100.0	6,670	100.0	6,670	+ 135	1,080	7,750
Owner	4,490	78.4	5,551	83.2	5,229	+ 46	1,267	6,818
Renter	1,236	21.6	1,119	16.8	1,441	- 46	- 187	932
2 or More Person Households Other Male Head Under 65 Years	1,984	100.0	3,231	100.0	3,231	+ 178	1,424	4,655
Owner	974	49.1	1,385	42.9	1,586	- 29	379	1,764
Renter	1,010	50.9	1,846	57.1	1,645	+ 29	1,045	2,891
65 Years and Older	456	100.0	487	100.0	487	+ 4	32	519
Owner	324	71.1	390	80.1	346	- 6	- 22	368
Renter	132	28.9	97	19.9	141	+ 6	54	151
Female Head Under 65 Years	5,058	100.0	7,407	100.0	7,407	+ 336	2,688	10,095
Owner	2,159	42.7	3,086	41.7	3,163	- 11	1,033	4,119
Renter	2,899	57.3	4,321	58.3	4,244	· 11	1,729	5,973

1/ 1970 percentage applied to 1977 total.

TABLE VII-6, Cont'd.

CHANGES IN HOUSEHOLD COMPOSITION, HOUSING FORMATION, AND HOUSING TENURE BY HOUSEHOLD COMPOSITION, 1970-1977, WITH PROJECTIONS TO 1985, UNITED STATES

(In Thousands)

Household Composition by Tenure Total United States	1970		1977		1977		1985 Projection	
	Number	Percent	Number	Percent	Expected Number 1/	Annual Net Shift	Net Change Since 1977	Total Household
65 Years and Older	1,230	100.0	1,336	100.0	1,336	+ 15	120	1,456
Owner	860	69.9	952	71.3	934	+ 3	110	1,062
Renter	370	30.1	384	28.7	402	- 3	10	394
Single Person Household								
Under 65	6,184	100.0	9,254	100.0	9,254	+ 439	3,512	12,766
Owner	2,075	33.6	2,939	31.8	3,109	- 24	925	3,864
Renter	4,109	66.4	6,315	68.2	6,145	+ 24	2,587	8,902
65 Years and Older	10,421	100.0	11,980	100.0	11,980	+ 223	1,784	13,764
Owner	6,822	65.5	8,086	67.5	7,847	+ 34	1,476	9,562
Renter	3,599	34.5	3,894	32.5	4,133	- 34	308	4,202

Source: U.S. Census Bureau, Annual Housing Survey, Series H-150-77, U.S. Government Printing Office, Washington, D.C., 1979.

1/ 1970 percentage applied to 1977 total.

Trends in household formation and tenure change between 1970 and 1977 provide insights into factors which may be related to the demand for converted units. Among two-or-more person households, only the married couple group has had a net yearly shift from renter to owner status, and the same type of shift has occurred among one person households headed by women. Net yearly shifts from owner to renter status have occurred in two-or-more-person households (with unmarried male heads and female heads) and in one-person male households.

When these household tenure trends are disaggregated by age of household head, the results are even clearer. All married couple groups, despite their age, experienced a net yearly shift from renter to owner status. Among other types of households, only those with female heads over the age of 65 and those comprised of one person, over the age of 65, had a yearly net shift from renter to owner status in the 1970-77 period.

The fastest growing household types between 1970 and 1977 were:

(1) married couples between the ages of 25 and 35 years -i.e., the "baby boom" cohort (301,000 additional households per year);

(2) female heads under age 65 -- i.e., women with children or other dependents (336,000 additional households per year);

(3) one-person households under the age of 65 (439,000 additional households per year); and

(4) one-person households, aged 65 or older (223,000 additional households per year). Together, these four groups account for 77 percent of all household growth in the 1970-77 period.

These changes in household tenure by income status indicate inflationary effects on both household earnings and on a household's financial capacity to maintain an owner-occupied unit. Between 1970 and 1977, the number of households with incomes less than $15,000 per year decreased at the rate of 1,338,000 households annually, while the group earning over $15,000 per year increased by 3,033,000 households each year. Households with annual incomes below $15,000 shifted from owner to renter status at the rate of 438,000 households per year, while those earning $15,000 to $24,999 per year shifted from owner to renter status at the annual rate of 128,000 households. Only in the household category with yearly incomes over $25,000 is there a net annual change from renter to owner status.

When changes in household formation are the basis for projecting net demand for all types of housing, it is estimated that 10,263,000 households will comprise the net new owner demand for the 1978-85 period. 25/ Analysis by age of household head places net new owner demand during the same period at 10,432,000 households. 26/ In considering income, the estimate of net new owner demand increases to 10,645,000 households. This indicates that households with annual incomes below $15,000 either will be changing from owner to renter status or their incomes will increase, shifting them into higher income categories. Renter households earning below $15,000 yearly will decline by 8,702,000 households between 1978 and 1985; and, during the same period, it is expected that 19,347,000 additional households will either become owners, or, if they already own housing, their incomes will rise above $15,000. Thus, a net increase of 10,645,000 owner households can be expected between 1978 and 1985.

It is also estimated that households changing to owner status will number 10,382,000 between 1978 and 1985. This projection falls between the estimate developed for changes by household formation (10,263,000) and that based on the age of household head (10,432,000). Although the estimates may vary by the type of comparison being made, the projection that 10,382,000 households will comprise net new owner demand is probably the most representative overall estimate for the 1978-85 period.

Demand for Converted Units by Household Type and Income: 1980-85. The preceding analysis for the 1978-85 period provides estimates of growth or decline among various household types as well as estimates of net shifts in household tenure status. 27/ The next step in the analysis is to estimate the types of households which will demand converted units in the future.

25/ Net new owner demand is for an eight year period (1978-85), rather than the six year period of 1980-85.

26/ This is a slightly higher estimate than that for household formation and is caused by differences in trends within some age groups. Because it cancels out fewer differences in household types, the second estimate (10,432,000 households) is more accurate.

27/ In order to relate these estimates to the 1980-85 period, only six of the eight years of projected change will be used for the household demand projections. Therefore each estimate is reduced by one-fourth of its value.

By using a percentage distribution of past buyer characteristics, 28/ it is possible to project the types of households likely to purchase converted units between 1980 and 1985. This projection is then compared to net new owner demand, and the result provides an indication of whether the units projected for conversion can be marketed to each type of household. 29/

Using this procedure, it is estimated that 722,000 converted units will be purchased by male-headed households, and 685,000 by female-headed households. 30/ If these two projections are related to the net new owner demand, converted units will have to "capture" 19 percent of the entire net new home buying market between 1980-85. This represents 13 percent of the net new owner demand for male-headed households and 36 percent of the net new owner demand for female-headed households.

28/ According to the Survey of Current and Former Residents conducted for this study, recent purchasers of converted units have these household characteristics: income - about 29 percent earn between $17,500 and $25,999 yearly and 48 percent earn over $26,000 per year; household composition - 53 percent are headed by males and 47 percent are headed by females; 58 percent are one-person households; 30 percent are married couples (with or without children); 12 percent are single male or single female headed households living with children or other dependents; age groups - 38 percent are in the 25 to 34 year old group; 25 percent are in the 45 to 64 year old group; 19 percent are in the 35 to 44 year old group; 11 percent are in the over 65 year old group, and 7 percent are in the under 25 year old group. (See table VII-2 Appendix.)

s mentioned earlier, the household types buying a large share of onverted units are similar to the household categories which grew apidly during 1970-77. These include married couples between 25 nd 34 years old, female headed households under age 65, and one-erson households. (See chapter VI for additional details on house-old characteristics.)

9/ Table VII-7 provides the information required for this comparison f total estimated owner demand and the demand required to sell the nits projected for conversion, by households characteristics.

0/ The total units projected for conversion, with no limits on the upply of convertible units (i.e., 1,456,840 units), is used for this omparison.

TABLE VII-7

NET NEW OWNER HOUSEHOLDS PROJECTED CONVERSIONS, AND PROJECTED CONVERSIONS AS A PERCENT OF NET NEW OWNER HOUSEHOLDS, WITH THREE DIFFERENT CONDITIONS, 1980-1985

Household Characteristics	Net New Owner Households 1980-1985 1/	Projected Conversions 1980-1985 2/	Projected Conversions As Percent Of Net New Owner Households 1980-1985	Projected Owner Occupied Conversions 1980-1985 3/	Projected Owner Conversions As Percent Of Net New Owner Households 1980-1985	Revised Projection Owner Occupied Conversions 1980-1985 4/	Revised Projection Owner Occupied Conversions As Percent Of Net New Owner Households 1980-1985
Household Income 5/							
Total	7,789,750	1,456,000	18.7	917,280	11.8	718,044	9.2
Less than $5,000	-2,534,000	50,276	-2.3	31,712	-1.4	20,792	-1.1
$5,250 to $12,499	-2,482,250	116,547	-4.7	73,425	-2.9	57,443	-2.3
$12,500 to $16,999	-1,479,750	160,252	-10.8	100,959	-6.8	78,976	-5.3
$17,000 to $25,999	6,250,000	422,484	6.8	266,165	4.3	208,233	3.4
$26,000 or more	8,306,250	699,282	8.4	440,548	5.3	344,681	4.1
Household Composition							
Total	7,697,250	1,456,000	18.9	917,280	11.9	718,044	9.3
Married Couple	4,883,250	437,052	8.9	275,343	5.6	215,412	4.4
Other Male or Female	1,182,000	174,821	14.8	110,137	9.3	86,165	7.3
Single Males	550,500	320,505	58.2	201,918	36.7	157,970	28.7
Single Females	1,081,500	524,462	48.5	330,411	30.6	258,496	23.9
Sex of Head							
Total	7,697,250	1,456,000	18.9	917,280	11.9	718,044	9.3
Male	5,781,000	772,125	13.4	486,435	8.4	380,563	6.6
Female	1,916,250	683,875	35.7	430,845	22.5	337,481	17.6
Age of Head							
Total	7,824,000 6/	1,456,000	18.6	917,280	11.7	718,044	9.2
Under 25	326,500	105,154	32.2	66,247	20.3	50,253	15.4
25-34	2,850,250	533,500	18.7	336,105	11.8	172,857	6.1
35-44	825,750	276,800	33.5	174,384	21.1	136,430	16.5
45-64	1,582,250	362,210	22.9	228,192	14.4	179,513	11.3
65 or older	2,123,250	160,252	7.5	100,959	4.8	78,985	3.7

1/ These projections are 75 percent of the 1978-1985 projections, covering only six of the eight years projected. They include the number of new households formed which become owners, and the net number of households shifting from renter to owner tenure status.

2/ These projections are based on the trend line projection. The distribution of household characteristics is from percentages developed in the Department of Housing and Urban Development's 1979 Survey of Condominium and Cooperative Conversions. The figures assume that all converted units will be owner-occupied.

3/ Department of Housing and Urban Development's 1979 Survey of Conversions found 63 percent of all conversions to be owner-occupied.

4/ Based on revised 1980 projections which reflect influence of high interest rates and that 63 percent of all converted units are owner-occupied.

5/ The projected net renter to owner shift used a slightly different distribution of income for the 1975-1977 period; see Table VII-1 App. This table uses slightly higher income categories with 1979 dollars; the two distributions of income are probably comparable.

6/ This total includes 284,250 male heads of households, 774,500 female heads of households, and 693,750 one-person households all "under 65 years of age" for which further age distributions were not available; these represent 31 percent of all households with heads under age 65 which experienced a net shift from renter to owner status. These household characteristics were distributed by the same age proportions demonstrated by those households for which distributions were available.

From this same comparison, an estimate is made of that segment of the net new homebuyer market which converted units must capture if the 1970-77 rate of conversion is to continue. Of new one-person households expected to buy housing between 1980 and 1985, over 48 percent of all male-headed households and female-headed households will buy converted units. 31/

The age distribution of households expected to buy converted units between 1980 and 1985 is also important. Households in the 25 to 34 year old category would have to buy 554,000 converted units, or 19 percent of all home purchases this group of new homeowners is expected to make. The second highest number of units are expected to be bought by the 45 to 64 year old group. The 364,000 units they buy will account for 23 percent of the housing purchased by those in their age group. Converted units are expected to be bought by 277,000 households in the 35 to 44 age group, a high percentage (34 percent) of that group's housing purchases. In the group over 65 years of age, 160,000 households can be expected to buy converted units, only 8 percent of the units bought by that particular group. Finally, households under age 25 are projected to buy only 102,000 converted units; this figure represents 32 percent of the housing units these households will buy.

The discussion, thus far, has focused on household types and their demand for converted units. Still to be considered is whether these households will be able to afford the price of converted housing units during the 1980-85 period. The Survey of Current and Former Residents indicates that about 23 percent of those households which bought converted units earned less than $17,000 in 1979. Yet, on the national level, households with annual incomes of $15,000 or less in 1977 experienced a net shift from owner to renter status instead of a shift in the opposite direction. 32/ On the basis of income by tenure status, it is estimated that 7,983,750 households (including newly formed households and households shifting from renter to owner status) will demand new housing between 1980 and 1985. This number is slightly larger than the projection of

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31/ One factor in this case will be the amount of new condominium and cooperative construction activity: If new, attractive, and competitively priced condominium and cooperative units are built in large quantities, the amount of converted units purchased by each type of household may be reduced.

32/ The net shift of households from owner to renter status is signified by a negative sign in the projections presented in table VII-7.

7,697,250 households derived from the trends for household composition by tenure.

Considering demand shifts to owner status based on income, only households earning over $15,000 per year will be able to purchase any type of housing. 33/ No growth in homeownership is expected to occur among households with incomes below $15,000. The chief consideration concerning future demand for converted units is whether or not the same household types which bought converted units in the past can afford the units offered for sale in the future. For example, it is estimated that one-fourth of the units converted during the 1977 to 1979 period were bought by households earning less than $15,000 annually. If households with similar incomes can no longer afford to buy housing, new effective demand for housing will be reduced by one-fourth, unless higher income households buy a larger share of converted units than they have in the recent past. Reasons why higher income households might demand more converted units include escalating home prices and interest rates; both factors could make the cost of a single family home prohibitive, even to higher income households.

To this point, this chapter's analysis has assumed that all units projected for conversion will be occupied by owners. Yet, according to data presented in chapter VI, 37 percent of the households living in recently converted units are renters (including those renting from investor-owners and from converters). It is therefore necessary to consider only the characteristics of those households which bought and live in converted units, or 63 percent of the residents. When this factor is taken into account, it is estimated that units converted in the future must attract only 11 to 12 percent of total net new owner demand if the market is to continue expanding at the 1977-79 rate during the 1980-85 period. This one-third reduction in demand makes it even more likely that the net new owner demand will be sufficient for the projected number of converted units.

33/ However, this is not to say that the same households which will earn over $17,000 per year (in 1979 dollars) will want to buy converted units. This analysis is not sufficient to determine if the households likely to change from renter to owner status are the same households expected to earn enough to purchase a converted unit. Thus, households which actually can afford to and wish to buy units in the future may differ in composition and age from those households which bought converted units between 1970 and 1977.

Modifications to Projected Conversions Based on 1980 Financial Conditions

The projected number of conversions (using 1977-79 trends) may be subject to short-term fluctuations in the economy and the housing market. Interest rate increases during 1979-80 had a major impact on the home buying market, although converted units sales were relatively less influenced in the short-run by high interest rates. The March 1980 issue of U.S. Housing Markets estimates that, compared to 1979, single-family housing starts will decline by more than 25 percent; unsubsidized multi-family starts will decline by 40 percent; and the conversion of multi-family units will decrease by 20 percent. Despite this anticipated reduction in conversion activity, the publication notes that at least 100,000 units will be converted in 1980. 34/

In early 1980, developers in the 12 SMSAs with high levels of conversion activity reported that conversions were proceeding only if financing had been secured prior to the recent rapid increase in interest rates. Otherwise, both interim financing and permanent mortgage financing were difficult or too costly to obtain. 35/ In view of these financial constraints, it is likely that few buildings were bought in early 1980 for conversion in late 1980 or early 1981. Because of this presumed downturn in the 1980 market, it is estimated that conversion activity in the 37 largest SMSAs will be 20 percent less than previously projected. 36/ The 12 SMSAs with the largest number of converted units are expected to experience 58,000 conversions in 1980 instead of 67,000 based on the trend-line analysis; and in the 25 other large SMSAs, it is expected that 22,000 units will be converted instead of the projected 26,000. (See table VII-8.)

In the balance of the country, it is estimated that conversion activity will decline by 30 percent in 1980. Local government officials in these areas estimate that only 27,000 conversions will occur rather than the 38,000 projected previously. Based on these estimates

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34/ In its February 1980 issue of U.S. Housing Markets, Citicorp estimated that 145,000 units would be converted in 1980. The March 1980 figure reflects the sharp upward trend in interest rates and its effect on conversions, roughly a 20 percent decline in activity.

35/ U.S. Department of Housing and Urban Development, Telephone Interviews with Developers and Lending Officials in 18 Central Cities, March 1980.

36/ See footnote 34.

jurisdictions with some conversion activity between 1977 and 1979 can be expected to have only 24,000 conversions in 1980 instead of the trend-line projection of 38,000. Among those areas with no conversions prior to 1980, local government officials estimate that 3,000 units will be converted in 1980. 37/ These additional units, however are not sufficient to make up for the 30 percent decrease caused by higher interest rates. Considering these lowered estimates for 1980, the total number of projected conversions for 1980 is reduced from 131,000 units to 107,000 units.

TABLE VII-8

TREND-LINE PROJECTION OF CONVERSION ACTIVITY, 1980-85 MODIFIED BY SUPPLY LIMITS FOR CONVERTIBLE UNITS AND EFFECTS OF HIGH INTEREST RATES IN 1980

Projection Year	12 High Activity SMSAs	25 Other Large SMSAs	Balance of U.S.	Total U.S.
1980	52,767	21,569	27,047	101,383
1981	67,150	26,227	37,573	130,950
1982	77,982	35,548	55,188	168,718
1983	74,794	44,869	72,803	192,466
1984	107,853	54,190	90,418	252,461
1985	121,942	63,779	108,033	293,754
1980-85 Total	502,488	246,182	391,062	1,139,732

As a result of these changes, the trend-line projections of conversion activity between 1980 and 1984 are moved up one year to the 1981-85 period. That is, the previous 1980 estimate now becomes the 1981 projection, and so forth. The number of converted units in the entire country is expected to reach 1,140,000 for the 1980-85 period, instead of the 1,457,000 units projected through trend-line analysis or the 1,374,000 units estimated after the trend-line was modified to account for supply limitations. 38/ If it is further assumed that 37 percent of these units will be rented after conversion, then only 718,000 of

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37/ U.S. Department of Housing and Urban Development, Telephone Survey of 443 Local Officials, February 1980.

38/ This new estimate of 1,140,000 conversions will be valid only if buildings are converted between 1980 and 1985 at the same rate as in the 1977-79 period.

the 1,205,000 units will be owner-occupied. 39/ With this further adjustment, converted units need attract only 9 percent of the total new households entering the 1980-85 net new home buying market to continue to expand at the 1977-79 rate.

Other Factors Which Can Influence Future Conversion Activity

In addition to the demand, supply, and financial considerations discussed above, there are other factors which can influence the amount of future condominium and cooperative conversion activity. The impact of these factors, however, is more difficult to assess quantitatively. Each of these may alter the magnitude of projected conversion rates to an extent that can only be suggested at this time. These factors, which are briefly discussed below, are: regulatory actions by all levels of government; the rate of inflation; potential changes in the federal income tax code; migration patterns of the population; rates of new housing construction; and the characteristics of developers who convert rental units to condominiums and cooperatives.

Regulatory actions. Government regulation of conversion activity can, of course, have an impact on the direction and magnitude of future trends. To date, various states and local jurisdictions have enacted statutes relating to conversions (see chapters XI and XII), some of which represent deliberate attempts to alter the rate of conversions. For example, a complete moratorium on conversion activity or one which is triggered by local rental vacancy rates is intended

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39/ The Survey to Current and Former Residents indicates that for each 100 units converted, 37 households rent units. Of these households, 18 rent units from a developer or other non-investor landlord. It is possible that these 18 units may become owner occupied in the future as non-investor landlords sell the units. If this occurs, the renter occupancy would fall to 19 units. However, the lower renter occupancy ratio would not change the overall net effect on the housing market, as caused by a 37 percent renter occupancy. (See discussion in text.) The following demonstrates the effect of 19, rather than 37, percent renter occupancy: Of 100 units, 19 are occupied by renters. Therefore, renter demand is decreased by 76 households; rental supply is decreased by 81 households; and rental vacancies will be decreased by 5 units. In addition, owner demand is increased by 76 households; owner supply is increased by 81 households; and owner vacancies will be increased by 5 units. Thus, the net impact of conversions on the housing market remains the same as previously discussed.

to prevent anticipated growth in the rate of conversions. Although it is not clear what actual effects various regulatory actions have on conversion rates, there are some indications that the anticipation of a moratorium on conversion within a community may, in the short-run, stimulate the pace of conversion. Once enacted, certain types of legal restriction can slow conversion rates or encourage developers and converters to move to other localities where their actions are less strictly regulated. At the opposite extreme, certain government regulations or programs can accelerate the rate of conversion beyond the levels projected from past trends. For example, federal and local programs to provide homeownership opportunities to lower-income tenants could lead to the conversion of units occupied by lower-income groups.

Inflation rates. A significant change in the rate of inflation could have a substantial impact on the number of condominium and cooperative conversions undertaken. For example, higher rates of inflation stimulate more ownership demand, since homeownership can provide a hedge against inflation and a tax benefit to owners. Yet, inflation also causes mortgage interest rates to rise; and, as a result, fewer households may be able to purchase converted units.

Tax code changes. Changes in the Federal tax code which affect mortgage interest deductions or the relative advantages, in higher income brackets, of owning a home as opposed to renting, can alter conversion trends. Various proposals for tax credits or deductions for renters have been put forth, and if these were to be enacted, it would likely reduce the number of tenants who buy converted units primarily for the tax advantages of ownership.

Migration patterns. Changing interregional and interarea migration can also influence future trends in conversion activity, although experience to date indicates that conversions have occurred both in SMSAs which are experiencing inmigration and those experiencing outmigration. 40/ This suggests that any change in migration patterns would primarily affect the distribution of household demand rather than the level of conversion activity. SMSAs with population increases caused by net inmigration may have higher levels of new housing construction; however, the price mix, size, or location of newly built or available housing may not meet present demand. Therefore,

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40/ During the 1970-77 period, the net gains in households caused by migration were in these SMSAs: Denver-Boulder (+137,600); Houston (+321,600); Miami (+147,400); and Tampa-St. Petersburg (+301,600). The net losses of households caused by migration were in these SMSAs: Chicago (-316,800); Los Angeles-Long Beach (-330,500); and New York City (-189,700).

converted units are likely to compete with other alternatives both for current residents and new households. In SMSAs with population decreases with net outmigration, it is likely that a large share of residents who move are renters. As a result of their leaving, rental vacancy rates will increase, and this may cause landlords to convert vacant units as a means of recouping their initial investments.

New construction. The level of future conversion activity may be affected by the amount of new condominium, cooperative, and unsubsidized multi-family housing constructed nationwide. The segment of the home buying market which will buy either new or converted condominiums or cooperatives is probably limited, since the population groups attracted to such units in the past, although growing, will eventually peak. If newly built condominiums and cooperatives are priced competitively with converted units, the newly built housing may cut into the demand for converted units. However, to the extent that the new units are more expensive than comparable converted units, this type of competition will be minimized and converted units will claim their own share of the home buying market.

New construction can have other effects as well. Developers, of course, may convert recently built multi-family structures, especially as the local supply of potential conversions becomes depleted. Depletion has already approached this point in several SMSAs, as discussed above; conversion of recently constructed properties is likely to continue in such areas. However, if new, unsubsidized multi-family construction rates continue to decrease (as is currently the case in many areas), this source of convertible units will be limited and conversion rates can be affected as a result.

Developer characteristics. It is possible that, in the future, more and different types of condominium and cooperative converters may begin to convert units, and this can influence the amount of future activity in ways that cannot necessarily be projected from past trends. Most conversions are now undertaken by professional developers and landlords with the assistance of real estate experts and lawyers. If conversions increase in popularity and more firms and individuals believe there is a good opportunity to make a profit, the "conversion industry" is likely to expand, resulting in more unit conversions. Finally, tenants in a few areas are also converting their own buildings, and if more tenant groups choose to convert buildings that would otherwise have remained rentals, additional increases in conversion activity will occur.

Scenarios for Conversion Activity: 1980-1985

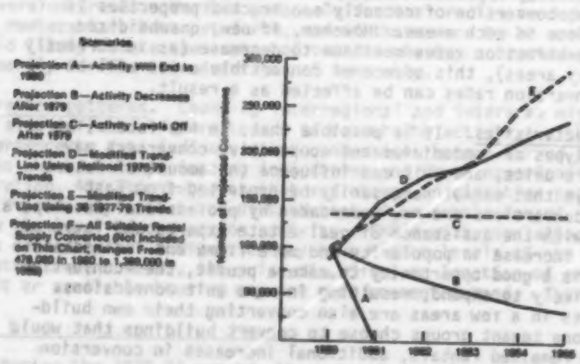
Considering the previous discussion, several scenarios of future conversion activity are possible. These scenarios are divided between those that are "most likely" and "least likely" to occur.

Most Likely Scenario. The most likely scenario for the 1980-85 period is that the number of conversions will increase each year, but that yearly increases will be at successively smaller rates. If the various housing supply, market, and financial conditions discussed in chapter V continue, then the increases in conversions noted during the 1977-79 period can be expected to continue into the first half of the 1980s. Under this scenario, 1,140,000 units, or 4.3 percent of the currently occupied rental housing stock, will be converted in the 1980 to 1985 period. 41/ (See also table VII-9.)

In larger metropolitan areas, the pace of conversion activity probably will not slow until desirable, high quality units (including those in recently constructed buildings) are converted. In the long-run, converted units are likely to become a clearly defined submarket because they generally cost less than other types of owner-occupied housing.

As the supply of units suitable for conversion in the larger SMSAs declines, conversions may occur in other areas of the country, although it seems unlikely that conversions will occur in communities with small populations. The rental supply in such areas is mainly comprised of single-family detached houses, which are not appropriate for conversion. In addition, these areas probably have an adequate supply of houses for ownership, usually at lower prices than similar units in larger cities and SMSAs.

Scenarios of Conversion Activity Projections: 1980-85



41/ If the 1976-79 national conversion trend is used to estimate future conversion activity instead of the 1977-79 trend, the projected number of 1980-85 conversions is 1,056,000 units. This total is 84,000 units smaller than the estimate using 1977-79 trends. It indicates that the use of the data from the 1977-79 period yields relatively stable estimates of future conversions.

TABLE VII-9
SCENARIOS OF PROJECTED CONVERSION ACTIVITY , 1980-85

Total United States	1980	1981	1982	1983	1984	1985	Total 1980-855	Percent of occupied rental housi converted
Projection A (Activity will end in 1980)	101,383	0	0	0	0	0	101,383	0.4
Projection B (Activity decreased after 1979) 1/	101,383	81,106	64,885	51,908	41,526	33,221	374,029	1.4
Projection C (Activity levels off after 1979)	135,000	135,000	135,000	135,000	135,000	135,000	810,000	3.1
Projection D (Modified trend-line using national 1976-79 trends) 2/	86,840	146,891	178,580	189,697	216,104	237,935	1,056,047	4.0
Projection E (Modified trend-line using 38 1977-79 trends) 2/	101,383	130,950	168,718	192,466	252,461	293,754	1,139,732	4.3
Projection F (All suitable rental supply converted) 3/	478,357	613,936	794,959	913,254	1,193,565	1,390,310	5,384,381	20.3

1/ Decreases at 20 percent per year, after 1980.
2/ Modified by a 20 percent decrease in 1980 and by convertible supply limitation.
3/ Refer to 1977 occupied rental housing supply.

Other Scenarios. There are several other possibilities for conversion activity in the 1980-85 period. The first, and rather unlikely, possibility is that the conversion market will never recover from the tight money market conditions existing during the first half of 1980. If conversions end after 1980, only 101,000 units would be converted in the 1980-85 period, which represents the total for 1980 alone. It is more likely that converters will be able to return to the market place as soon as interest rates fall, because owner demand for their product is high in most areas and existing properties can be rapidly brought to market, as converted condominiums.

Second, and also unlikely, is that conversion activity will decrease or will level off after 1979. If, for example, conversion activity decreases at 20 percent per year, there will be 374,000 conversions in the 1980-85 period rather than 1.2 million. If conversion activity levels off after 1979, there will be 135,000 conversions per year, for a total of 810,000 conversions in the 1980-85 period. These scenarios, however, are unlikely because conversions are expanding into new market areas and there are many units with conversion potential remaining in those markets where relatively high levels of conversion have occurred. In addition, inflation continues to provide incentives for many households to own units, rather than rent, and some of this inflation-driven demand is for condominiums. The supply and demand factors indicate that the amount of yearly conversions will probably increase but at a decreasing rate.

A third possibility is that the bulk of the rental housing supply will be converted, and that publicly owned and subsidized rental housing will be the only remaining multi-family rental properties. As has been shown earlier, however, no more than 20 percent of the existing rental housing stock is considered suitable for conversion, so this scenario is not likely. If the 20 percent suited for conversion is, in fact, converted, 5,384,000 units will experience a tenure change. It is unlikely, however, that the level of demand for converted units will justify the conversion of such a large share of the Nation's rental housing supply. Homeownership demand remains concentrated in the single-family housing market and will remain there unless housing prices reach extraordinary levels or the preferences of homebuyers change drastically.

* * *

It is possible (but not probable) that conversions occurring between 1980 and 1985 will range from one hundred thousand to five million units. The greater likelihood is that conversions will number between 1,056,000 and 1,140,000 units during this period. However, when the net number of rental units which will be needed for tenants moving from converted buildings is considered, the net shortfall of rental could range from 5,050 to 269,200 units in the extreme scenarios. In the more likely scenario, the net shortfall of rental units can be expected to range between 52,800 and 57,000 units. Thus, the actual net effect of conversions on the housing market as a direct result of conversions is relatively small, even though it involves large numbers of units and the movement of many households. Although the net effect may be small in general, it is conceivable that conversions may cause the vacancy rate to "tip over" to an unacceptable level. For example, in some neighborhoods, the impact of conversions may cause the vacancy rate to drop to marginal levels, tightening the rental market to the extent that renters leaving conversions must find rental units in other areas of the city.

Chapter VII
Community and Neighborhood Impacts

Conversions of rental properties to condominiums or cooperatives can have various impacts on the communities and neighborhoods in which they occur, on the renters whose units are converted, and on the households that occupy converted units. The latter -- impacts on current households and former residents -- are examined in chapter IX; in this chapter, community and neighborhood effects are analyzed.

The community and neighborhood impacts which are most frequently attributed to conversions are those that relate to the local tax base, the condition and composition of neighborhoods, and the housing stock.

> Tax Revenues. To the extent that conversions result in increased property tax revenues resulting from changed assessments or increased numbers of homeowners, conversions can have an impact on the community's fiscal condition. The magnitude of the impact depends on tax and assessment practices and on the level of conversion activity.
>
> Neighborhoods. To the extent that conversions result in changes in building occupancy, they can have an impact on the composition of a neighborhood's population and related characteristics. The size of the impact depends on the level of conversion activity, on mobility patterns of residents affected by conversions, and on the amount of spatial concentration of activity within a community.
>
> Housing. To the extent that conversions involve rehabilitation of buildings, they can have an impact on the quality and character of the housing stock. The degree of the impact depends on the amount and type of repairs undertaken as part of the conversion process.

The Fiscal Impacts of Conversions

The conversion of rental properties to condominiums and cooperatives can have an impact on the tax revenues and expenditures of local governments. These impacts, however, can vary widely from community to community and from building to building within a community.

Potentially, the largest and most direct fiscal impact of conversions is through the property taxes that are assessed on converted units. 1/ A second impact is on local government expenditures. This can result from changes in the demand for public services associated with changes in the characteristics or behavior of postconversion residents compared to preconversion households.

The Impact on Property Taxes. The impact of conversion on property tax revenues depends on effective property tax rates and the assessment changes which occur as a result of conversion. During the last decade, many states have developed property tax relief mechanisms which take a variety of forms, the most prevalent of which are homestead exemption and circuit breaker laws. All 50 states and the District of Columbia have programs, for instance, to ease the tax levy on low-income households with most giving special attention to elderly households. 2/ Many states provide tax relief to all homeowners, regardless of income or age.

> In Louisiana, for example, up to $5,000 may be deducted from the assessed value of all owner-occupied housing in the state. Since assessed value equals only 10 percent of current market value, households in condominiums valued at $50,000 or less pay no property taxes.

ther states and other jurisdictions provide different forms of tax elief which decrease the potential level of local revenues resulting rom conversion.

/ There are other incidental revenues generated by conversions d, in most cases, these revenues include possible transfer taxes real estate transactions, filing fees, and increases in income or ge receipts resulting from rehabilitation undertaken during conver-ion.

/ U. S. Department of Housing and Urban Development, Property Tax elief Programs for the Elderly (November 1975).

> In New York City, there is a program which provides a 12 year exemption from increased real estate assessments due to building improvements and a 90 percent tax abatement of the fair value of the improvements taken at the rate of 8-1/3% annually. Substantial rehabilitation done at the time of conversion does not contribute to increased property tax revenues.

Property tax relief programs, therefore, mediate the impact of conversions on tax revenues. Since these programs vary widely from state to state in the number of people and in the extent of coverage, the the impact of these programs on the potential revenues from conversion will also vary considerably.

Property assessment practices, like tax relief programs, also condition the impact of conversions on local revenues. Prior to conversion, a rental property is typically assessed as a single entity and the assessment is based on the property's income producing capacity or on the recent sales prices of comparable properties. 3/ After conversion to a condominium, each unit in a converted building or complex is assessed separately. Generally, the aggregate assessment of the individual units in the converted building is greater than the single preconversion assessment. This increase may be due wholly to the tenure changes of the building and the value premium associated with ownership, or it may be due to the extensive renovation which sometimes takes place at the time of conversion, or to both. Since the methods and frequency of reassessment differ widely among jurisdictions, the impact of conversion on tax revenues is largely affected by these local practices. The following examples highlight the variation among local jurisdictions in assessment practices:

> In Los Angeles, the assessed value of all properties, rental and ownership alike, is equal to 25 percent of their market value. This, in turn, is determined by sales price of comparable properties.
>
> In Baltimore, however, a rental property is assessed at 50 percent of the entire market value and an ownership property is assessed at the slightly lower figure of 45 percent.

3/ Since the prices of rental buildings are closely associated with their income producing potential, assessments based on the income potential may be similar to those based on sale prices of other rental properties.

> In Minneapolis, a method is used which assesses more expensive homes at a higher rate than less expensive homes, and both at a lower rate than rental properties. 4/

Perhaps the greatest variation is between Chicago and other cities.

> In Chicago (Cook County), Illinois, rental properties are assessed at twice the percentage of market value as ownership properties -- 33 percent versus 16 percent. Therefore, unless assessment of condominiums double, the property taxes collected on buildings after conversion will not exceed the property taxes collected when the buildings were rentals.

Clearly, different local assessment practices mean that the conversion of comparably valued rental properties in each of these cities would show markedly different percentage changes in assessed values and property taxes owed. 5/

The timing of reassessments may also influence the revenue effect produced by conversion.

> In Chicago, for example, since properties are reassessed only at specific intervals (and even then only a fraction of all properties are reassessed at any one time), a converted building whose units are reassessed soon after conversion will generate a much greater tax revenue than a comparable property that avoids reassessment for a number of years.

4/ Rental properties are assessed at 40 percent of their limited value (a fraction of their market value), and condominiums are assessed at 18 percent of the first $21,000 limited value and 30 percent of the remaining limited value. As a result, the assessed value for a $40,000 rental building would be $16,000, while a condominium of equivalent value would be assessed at $9,480.

/ Characteristics of local housing markets may affect assessed alues and, therefore, revenues. In cities with rent control, a uilding may experience an increase in value at conversion, since ent control stabilized its previous worth. In cities with high ental vacancy rates, the gap between a building's value as a condominium and as rental building may be wider.

Other cities, such as those in California, reassess only at the time a property is sold. In these cases, the maximum increases in assessed values and taxes are likely to be generated soon after conversion. 6/

Although there is not a large body of data available to assess the extent, nationally, of changes in postconversion property tax assessments, there is some limited information on this subject. For instance, a ten year assessment history of 50 converted buildings in Boston shows that, in the first year after buildings are converted, valuations increase an average of 40 percent, with higher value increases in the late 1970s reflecting greater market demand and renovation. 7/ In contrast, the assessments of similar buildings which were not converted increased by only 12 percent on average since 1975. However, over the last five years as the values were rising rapidly, the city has periodically reduced the percentage of market value at which condominiums are assessed, making revenue changes less dramatic than they might otherwise have been.

6/ In 1978, the passage of Proposition 13 reduced assessed values to 1975-76 levels and set the maximum rate of taxation to four percent of assessed value. When properties are sold, assessed values are based on the current market value (selling price). Therefore, in California, increases in assessments for condominiums reflect the difference between the current market value and the market value in 1975-1976.

7/ Condominium Conversions in Boston, No. 97, (Boston: Municipal Research Bureau, April 1, 1980). During the period of the Boston study (in 1974), the Massachusetts Supreme Court found a lack of consistency in local assessment practices in the state. (Sudberry v. The Commissioner of Corporation and Taxation, 366 Massachusetts 558, 1974.) As a result, Boston and other local governments, were ordered to implement full valuation equalization assessment practices. Procedures to achieve compliance are underway in Boston, but, it is unclear whether conclusions reached in this study take into account

The conclusions of other local studies of conversion's tax impacts in Chicago, 8/ Washington, D.C., 9/ and Brookline, Massachusetts, 10/ also support these findings. In Washington, D.C., the average property tax increase of $466 per converted unit per year is estimated to yield additional tax revenues of more than $1.4 million annually. 11/

According to local officials, conversions do provide additional tax revenues but the actual dollar increases are small when compared to a community's total assessments. In only 11 percent of all communities with conversions (especially those between 100,000 and one-half million in population) do local officials believe that increased postconversion assessments have a "major" impact on the local tax base. 12/ Data collected for this study in 13 cities with high levels of conversion activity illustrate the extent of variation in changed assessements that accompany conversion, and the relatively small impact that changed assessments have had on communities. (See table VIII-1.) 13/ Consisting of pre and postconversion assessments

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8/ Michael S. Young, Michael D. Nicholas and Richard Roddewig, Condominium Conversions in Chicago: Facts and Issues (Chicago: Shlaes and Company, 1979).

9/ Development Economics Group, Condominiums in the District of Columbia. The Impact of Conversions on Washington's Citizens, Neighborhoods, and Housing Stock (Washington: Raymond, Parish and Pine, Inc., 1975).

10/ Condominium Conversions in Brookline: An Analysis of How Conversions Take Place in Brookline, and How They Affect the Town's Residents and Its Fiscal Conditions (Boston: Harbridge House, Inc., 1979).

11/ Condominiums in the District of Columbia, op. cit., p. 260.

12/ U.S. Department of Housing and Urban Development, Telephone Survey of 443 Local Officials, February 1980.

13/ With the exception of Baltimore, data were collected for one large property (with more than ten units) and one small property (with less than ten units). In Baltimore, data were collected only for the small property. Properties were randomly selected from a list of known conversions in the year 1978. Data collected included the assessed value of units after conversion; assessed value of the rental property prior to conversion; and the property tax rate associated with each. The average size of the small property was 6.4 units; the average size of the large property was 48.6 units. These data are shown for illustrative purposes only. They do not comprise a representative sample and, therefore, generalization is limited.

TABLE VIII - 1

PERCENTAGE CHANGE IN ASSESSED VALUES AND NOMINAL PROPERTY TAX LIABILITIES FOR SELECTED CONVERSIONS

SMSA	Percent Change in Assessed Value	Percent Change in Nominal Property Tax Liability
Baltimore	+ 643	+ 643
Boston	+ 28	+ 28
Boston	+ 26	+ 26
Chicago	+ 49	+ 48
Chicago	+ 57	+ 57
Denver	+ 225	+ 225
Denver	+ 28	+ 28
Houston 1/	0	0
Houston	+ 205	+ 205
Los Angeles	+ 294	+ 294
Los Angeles	+ 78	+ 78
Miami	+ 57	+ 57
Miami	+ 6	+ 6
Minneapolis	- 21	- 21
New Orleans	+ 229	+ 229
New Orleans	+ 57	+ 57
New York 2/	+ 2	+ 2
New York 2/	0	0
St. Paul	+ 45	+ 45
San Francisco	+ 755	+ 755
San Francisco	+ 152	+ 152
Seattle	+ 110	+ 81
Seattle	+ 85	+ 59
Washington, D. C. 1/	+ 1,250	+ 967
Washington, D. C.	+ 79	+ 42
Mean All Cases (N=23)	+ 139	+ 135
Median All Cases	+ 57	+ 57
Mean All Condominiums (N=21)	+ 152	+ 147
Median All Condominiums	+ 78	+ 78

1/ Accuracy of these data is questionable so they have been excluded from calculations.

2/ Cooperatives.

Source: Property assessment data from city assessors' offices.

for 23 buildings, these data indicate that the postconversion percentage change in assessed values ranged from +755 percent to -21 percent, with an average (mean) increase of 139 percent. 14/ Half of these properties had an increased assessed value of 57 percent or more. If only condominium conversions are considered, the average (mean) increase is 152 percent, and one-half of the condominiums had an increased assessed value of 78 percent or more. 15/

s a result of these changes, the nominal property taxes owed 16/ (i.e., owed before any property tax exclusions or abatements are aken into account) increased, in most cases, by amounts that were identical to increases in assessed value. 17/ For example, 8 of he 23 condominium properties more than doubled in assessed value, nd all but one of these properties also coubled the nominal pro- erty tax generated. 18/ Although most jurisdictions experience an ncrease in real estate assessments as a result of conversions, the ncrease is very small compared to the total assessments existing in hese places. (See table VIII-2.) Among SMSAs with the largest

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4/ Originally, data were collected on 25 buildings, but this calcu- ation excludes one Washington, D.C. building and one Houston, Texas roperty because data from these are questionable.

/ This excludes two New York cooperative buildings.

/ Nominal property taxes were used because data on the amount of clusions granted for each building in all cities were unavailable. ing nominal property taxes exaggerates somewhat the net tax effect conversion. However, the average nominal tax increase in those ties for which both the nominal and net tax are available is only percent greater than the net tax increase: 96 percent versus 83 rcent.

/ Only in 2 of the 12 high conversion volume cities were the per- ntage changes in nominal taxes levied different from the percentage anges in assessed values. In one city, the change occurred because a decrease in the tax rate charged to all classes of property. In e other, a lower tax rate is applied to owner-occupied converted its than is applied to rental properties. Even there, the increase assessed value was so great that the nominal tax owed still creased.

/ It is unreasonable to assume that increases of the magnitude nd in this report and in other studies occur in all conversions. se considered here are far too few to make such quantitative imates. They can be used, however, to illustrate general trends.

amounts of conversion, only San Francisco experienced a net increase in assessed values greater than two one-hundredths of one percent (.0002%) of total real property assessments as result of conversions occurring in 1978 and subsequent reassessment. 19/ While the totals are very small, they represent additional tax revenues to be collected year-after-year and conceivably, could amount to a significant sum in the future. The net impact is dependent, in part, on the number of conversions occurring and the mitigating effects of special property tax relief measures such as homestead, elderly, and disability exemptions.

In addition, it would be unwise to attribute all of the increases noted above to the change in use of the property, i.e., from rental to condominium or cooperative. A rental property that remained rental after undergoing rehabilitation, comparable to that in many conversions, would also show some increase in assessed value and property tax. Furthermore, the undetermined time lag between the last date the property was assessed before the conversion, together with the general rate of inflation, no doubt accounts for some of the increase in many of the cases. Attributing as much as one-half of the increase to these factors does not diminish the general thrust of the point; conversions substantially increase assessed values and property taxes.

19/ This percentage assumes that the largest per-city increase in assessed value resulting from conversion (as indicated by the very small sample of buildings used to generate these data) represents the increases to be expected from all conversions. If the average increase is used, the increases in total assessed values resulting from conversions would be much smaller. (See table VIII-2.) The fiscal impacts of cooperative conversions do not appear to be greater than those generated by condominium conversions. The only cooperative conversions included in this analysis were two properties in New York City where most of the cooperative conversions have taken place. In one building, there was no increase in assessed value or nominal property tax generated. In the other building, only a two percent increase occurred after conversion. Cooperatives in New York are taxed at the same rate as a rental buildings, and, unlike condominiums, which have separate assessments on each unit, cooperatives have only one blanket assessment on the entire building. A court case, now pending in New York, has important implications for future tax treatment given to cooperatives: the case involves a cooperative in Bronxville, known as River House, which is challenging the town and village assessments for the years 1976 through 1978 on the grounds that they were overvalued.

TABLE VIII-2

ESTIMATED ASSESSMENT INCREASES DUE TO CONVERSION AS A PERCENT OF TOTAL ASSESSMENTS, SELECTED SMSAs

SMSA	1970 SMSA Real Property Assessed Values (In Billions)	Conversions in 1970	Largest Per Unit Increase Assessed Value 1/	Total Increase as Percent of Total Assessment 2/	Per Unit 3/ Average Increase	Average Increase as Perc of Total Assessm
Baltimore	$ 11.74	762	$ 1,006	.0001	-	
Boston	19.32	2,224	466	.0001	310	.00004
Chicago	30.54	11,255	474	.0002	422	.00016
Denver	4.99	6,743	99	.0001	33	.00004
Houston	12.60	5,615	83	*	25	**
Los Angeles	25.07	4,506	1,235	.0002	1,205	.00019
Miami	20.03	1,970	401	*	306	.00003
Minneapolis-St. Paul	7.89	1,783	148	*	-340	-.00000
San Francisco-Oakland	15.78	2,639	6,141	.0010	2,084	.00032
Seattle	21.32	2,828	446	*	427	.00006
Washington, D.C.	10.89	3,781	366	.0001		

Source: Property Values Subject to Local General Property Taxation in the United States: 1970, U.S. Bureau of the Census, Series GSS No. 92, Washington, D.C. 1978.

* - Less than one one-hundreth of 1 percent.
** - Less than .00001

1/ Of 2 buildings sampled; one building in Baltimore.

2/ Using the largest per unit increase as the basis for calculation.

3/ Average of 2 buildings sampled.

To Recap. With some exceptions, conversions do not appear to generate substantial tax windfalls for local jurisdictions. Changes in nominal property taxes closely parallel changes in assessed values following conversion from rental to condominium status, and both tend to increase substantially. It is not possible to separate out what portion of the increase is due to substantial improvements in the building and what portion is simply a result of the increase in the value of the building due to conversion per se. However, although in most cases, the majority of buildings converted to date have not undergone substantial rehabilitation, it cannot be presumed that in most cases, building improvements are not the primary cause of assessment increases.

Impacts on Local Expenditures. Condominium and cooperative conversions may have additional fiscal impacts not measured by changes in assessed values and property taxes. Changes in the characteristics of the households who occupy converted buildings may generate new levels of demand for public services which entail changes in the level of local expenditures. The following section examines differences between pre and postconversion residents, as well as the mobility patterns of those households who buy into or move out of converting buildings. If those mobility patterns are constrained primarily within the same local jurisdiction, then the net effect on demand for services may not change. It is also possible that the fact of ownership per se affects demand for public services, i.e., the same household has different public service demands as an owner then it has as a renter. This potential shift in demand, however, is not addressed empirically.

Historically, the fair market value of a cooperative is estimated by treating the property as an income producing rental building and comparing it to similar rental buildings in the neighborhood. For River House, the two municipalities ascertained fair market value by analyzing recent sales of units in River House and similar cooperatives in its vicinity.

As a result, the municipal figures on which the assessments were based were considerably greater than those developed by the cooperative using rental values. Should the municipalities prevail in this case, an important precedent of using sales prices for cooperative assessments may be set.

Relatively few cooperative conversions have taken place outside of New York State. The New York SMSA accounts for 70 percent of cooperative units converted since 1970, and the neighboring Nassau-Suffolk SMSA accounts for 6 percent of all such conversions.

ree Types of Conversion Neighborhoods

the remainder of this chapter, postconversion changes in the ocioeconomic characteristics of residents and in the overall con- ition of the neighborhood housing stock are examined. Conversions ccur most frequently in three types of neighborhoods distinguished th by their location (whether in a central city or its suburbs) d stage of development (whether revitalizing or nonrevitalizing): ntral city nonrevitalizing; central city revitalizing; and suburban nrevitalizing. (See exhibit VIII-1.) 20/ Different types of ildings, based on the degree of renovation at the time of conver- on, are associated with these neighborhood types. As discussed chapter III, conversions can be distinguished by whether they volve minor or major renovation; those involving major renovation e more frequently found in central city revitalizing neighborhoods an in the other two neighborhoods. Each of the three neighborhood pes is discussed, in turn, below.

Exhibit VIII-1
Three Types of Conversion Neighborhoods and the Building Condition Associated With Each

Types	Location	Description	Pre-Conversion Building Condition	Level of Repairs
Central City Non-revitalizing	Central City	Economically Viable Due to Continued Private Reinvestment.	Most Are in Good Condition.	Minor Cosmetic Changes (i.e., Painting or Carpeting) or Sold "As Is."
Central City Revitalizing	Central City	Have Experienced Decline but Are Beginning to Revitalize Due to Increased Private/Public Reinvestment.	Most Are in Good Condition but a Significant Number Are Substandard.	Most Undergo Minor Repair but a Significant Number Undergo Major Repairs Prior to Sale.
Suburban Non-revitalizing	Outside of Central City	Economically Viable Due to Continued Private Reinvestment.	Most Are in Good Condition.	Minor Cosmetic Changes (i.e., Painting or Carpeting) or Sold "As Is."

ral City Nonrevitalizing Neighborhoods. Nonrevitalizing neigh- oods are those which are experiencing steady and continued private stment and are economically viable. 21/ Generally, the

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This is determined by the relative levels of private investment local public funds targeted to these neighborhoods, based on rmation provided by local housing and planning experts and Commu- Development Block Grant applications.

According to local observers, a few of these nonrevitalizing borhoods may receive allocations from local Community Develop- Block Grant (CDBG) or Section 8 new or existing housing programs. frequently, CDBG funds are used for public improvements such as ts, sidewalks, or lighting.

housing stock is well maintained, and these areas have not experienced significant socioeconomic shifts in population during the last decade.

The Nation's 37 largest SMSAs contain 48 central cities. According to local planning officials, conversions have occurred in nonrevitalizing neighborhoods in 30 of these cities. (See exhibit VIII-2.) 22/ Studies of conversion activity in San Francisco and the District of Columbia, for example, have shown that a substantial number of the conversions in these localities have occurred in economically stable neighborhoods. 23/ The median incomes, rents, and housing values in these neighborhoods are higher than citywide, and local observers indicate that vacancy rates in nonrevitalizing conversion neighborhoods tend to be equal to or below city averages. Although reliable information is not available for turnover rates in individual neighborhoods, the low vacancy rates suggest fairly tight rental housing markets in most of these areas. 24/ The ovewhelming majority of the neighborhoods surveyed in the Washington, D.C. study did not experience significant changes in racial composition from 1960 to 1972; most conversion neighborhoods were predominantly white in both years.

The demographic profiles of other nonrevitalizing neighborhoods included in this study are similar to those identified in the San Francisco and Washington, D.C. studies. Most residents are middle- or upper-middle-income whites who are employed in white-collar,

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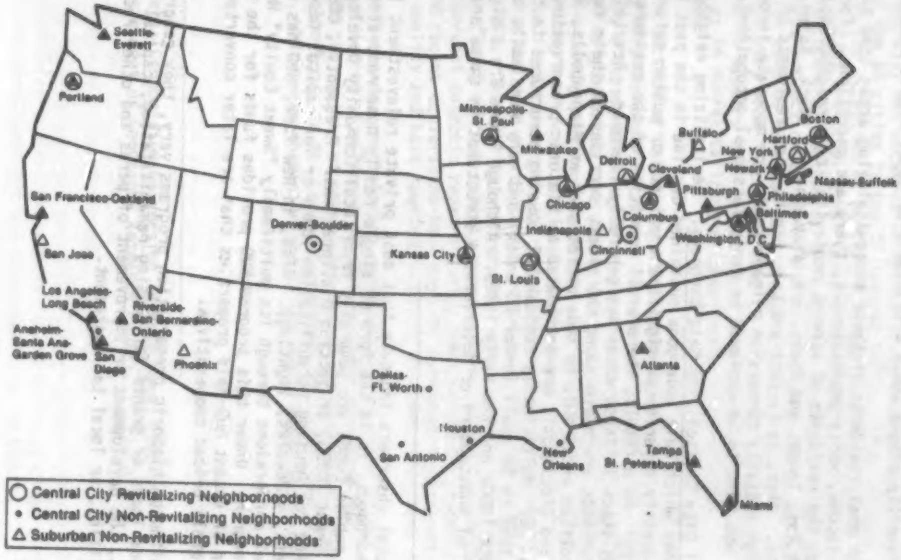
22/ The Census is generally considered to be the best available data source for neighborhood analysis. However, the 1970 Census may not provide accurate demographic or housing characteristics of neighborhoods in 1979 or 1980. On the other hand, data from more recently conducted Annual Housing Surveys are aggregated at the SMSA (central city/outside central city) level and do not provide an adequate base against which to assess neighborhood characteristics. Therefore, local observers who are familiar with those neighborhoods in which conversions have occurred were interviewed in order to obtain pertinent neighborhood information. In-person interviews were conducted in 37 SMSAs, and a separate round of telephone discussions were held with local planners in 18 central cities which are located in 12 SMSAs with high levels of conversion activity. The telephone interviews were conducted in February 1980, separately from the national telephone survey of local government officials. See Appendix 2 for a description of the method used.

23/ Development Economics Groups, Condominium and Cocperative Conversions in the District of Columbia (Washington: Raymond, Parish and Pine, Inc., 1979); Condominium Conversions in San Francisco (San Francisco: San Francisco Department of City Planning, 1978).

24/ See discussion on relationship between SMSA-wide vacancy rates and conversion activity in chapter V.

EXHIBIT VIII-2

Types of Neighborhoods With Significant Amounts of Conversion Activity Within the Nation's Largest 37 SMSAs


Seattle-Everett
Portland
San Francisco-Oakland
San Jose
Los Angeles-Long Beach
Riverside-San Bernardino-Ontario
Anaheim-Santa Ana-Garden Grove
San Diego
Phoenix
Denver-Boulder
Dallas-Ft. Worth
San Antonio
Houston
Kansas City
Minneapolis-St. Paul
Milwaukee
Chicago
St. Louis
Indianapolis
Cincinnati
Detroit
Columbus
Cleveland
Pittsburgh
Buffalo
Washington, D.C.
Baltimore
Philadelphia
Newark
New York
Nassau-Suffolk
Hartford
Boston
Atlanta
New Orleans
Tampa-St. Petersburg
Miami
○ Central City Revitalizing Neighborhoods
• Central City Non-Revitalizing Neighborhoods
△ Suburban Non-Revitalizing Neighborhoods

Source: Field research in the Nation's largest 37 metropolitan areas and indepth discussions with local planners in 18 central cities with significant conversion activity.

professional, or managerial occupations. Neighborhood median incomes are generally well above city averages and, in many cases, are among the highest in these cities. Households tend to be smaller -- singles or couples, most frequently without children. Many heads of household are concentrated in two age categories -- 25 to 35 years and over 65 years old. Elderly heads of households are frequently single women with middle or upper middle incomes.

Although most residents of these nonrevitalizing areas tend to be middle-income, white professionals, there are exceptions. For example, the residents of several nonrevitalizing neighborhoods in Los Angeles, Tampa, and Miami, are predominantly black, Asian, or Hispanic. Also, in Everett and Long Beach, most residents of certain high activity conversion neighborhoods are moderate-income whites who tend to be employed in nonprofessional occupations.

Central City Revitalizing Neighborhoods. Revitalizing neighborhoods are those which have undergone sustained decline in the past but have recently experienced significant private or public reinvestment. 25/ As a result, the overall condition of the residential housing stock in these areas has generally improved. Revitalizing neighborhoods are often among the oldest sections of their respective metropolitan areas and, in some cities such as Minneapolis, St. Paul, and Cincinnati, are designated as historic preservation districts. 26/ Multi-family residential housing structures in these areas tend to be small (under 20 units) and many were built between the late 1800s and the early 1930s. Although there are a significant number of substandard or deteriorated structures in these areas, the

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25/ Local observers indicate that most private reinvestment in these neighborhoods, is in the form of single-family home renovation, while public funds are generally from local Community Development Block Grant (CDBG) or Section 8 allocations. Frequently, CDBG funds are used for housing rehabilitation loans or for capital improvements (streets, sidewalks, lighting). Also, in New York, HUD has sponsored several conversions through its multifamily "Sweat Equity" Homesteading program. Under this program HUD provides funds for the rehabilitation of vacant HUD-held properties that are later converted to moderately priced cooperatives.

26/ Although historic preservation programs vary, they generally include loans or grants for housing rehabilitation, capital improvements, the development or improvement of parks and other recreational facilities, or local tax abatement.

architectural design and the size of units, often have aesthetic appeal. Prior to initial conversion activity, several of these neighborhoods have also experienced dramatic changes in the overall socioeconomic characteristics of their residents; middle- and upper-middle-income, white homeowners have often replaced low- and moderate-income, minority renters.

Conversion activity has occurred in revitalizing neighborhoods in one-third of the 48 cities in the 37 largest SMSAS. (See exhibit VIII-2.) With the exception of Denver, Portland, and Washington, D.C., these cities are older urban centers located in the northeastern or northcentral regions of the country. Similar to nonrevitalizing areas, vacancy rates in revitalizing neighborhoods experiencing conversion tend to be equal to or lower than city averages. Turnover rates vary from "extremely low" to "very high" across jurisdictions, but it appears that rental markets are just as tight in these areas as in nonrevitalizing neighborhoods, given the low vacancy rates.

The Hyde Park section of Chicago provides examples of central city revitalizing neighborhoods which have had conversion activity. Under urban renewal, a substantial number of deteriorated apartment buildings in these neighborhoods were demolished and replaced by townhomes; these were frequently purchased by middle- and upper-middle-income whites while many low-income black households moved out of the area. 27/ The first conversion of rental units to condominiums in Hyde Park coincided with the close-out of urban renewal activities in the area in 1965. The earliest conversions were in small structures (three to six flats) of high quality construction. These buildings generally underwent cosmetic repairs during the conversion process. However, more recent conversions have been in buildings considered to be of lower quality and have required substantial rehabilitation.

During the past decade, revitalizing neighborhoods in other cities have also experienced significant changes in their socioeconomic profile and/or the quality of their residential housing stock. For example, neighborhoods in St. Louis, Cincinnati, St. Paul, and Washington, D.C., which were characterized in the early 1960s as having

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27/ Peter Adels, Condominium Conversion in Hyde Park, 1965-79 (Chicago: Department of Geography Research Papers, 1977), p. 20.

mostly low- or moderate-income residents, have experienced appreciable in-migration of middle- or upper-middle-income, professionals. 28/ Housing in these areas, which was often considered deteriorated or substandard 20 years ago, has been renovated largely through private reinvestment.

The current socioeconomic profile of revitalizing neighborhoods undergoing conversion is similar to that of nonrevitalizing areas. In general, they tend to be predominantly white neighborhoods whose residents are professionals earning incomes equal to or above the city's median, but there are exceptions. For example, Chicago's South Shore area is a racially mixed neighborhood; and in St. Paul, Minneapolis, and Hartford, most revitalizing neighborhoods experiencing conversion have median incomes below that for the city. In addition, a significant proportion of the residents in St. Paul's revitalizing neighborhoods are service or clerical workers rather than professionals. Households generally tend to be smaller, often without children, and many heads are 25 to 35 years of age, or over 65 years old.

Local observers generally do not perceive a clear relationship between conversion and revitalization in these central city neighborhoods. In most cases, private reinvestment as well as the targeting of local public funds to these neighborhoods occurs at least two to five years before initial conversion activity. In general, it appears that conversion activity lags behind, rather than acts as a catalyst for, revitalization. Often, single-family homes are the first buildings renovated. One developer in Washington, D.C. decided to convert an abandoned apartment building but only after he had rehabilitated a number of single-family houses in the vicinity. On the other hand, in Newark, New Jersey, there is a neighborhood which has experienced decline and disinvestment, but is not yet considered to be "revitalizing." Despite the targeting of a substantial amount of Federal and local housing and community development funds, the neighborhood has yet to experience significant private reinvestment. To encourage additional reinvestment, local agencies have sponsored the conversion of four rental units to condominiums. 29/ Conversions

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28/ Revitalization does not always entail a change in the racial composition of the neighborhood. In only three cities -- St. Louis, Cincinnati, and Washington, D.C. -- did revitalizing areas experience significant racial change.

29/ This conversion is a unique joint venture between the city government, the Chamber of Commerce, and a local nonprofit housing, rehabilitation and development corporation.

sponsored only by the private sector, however, rarely take place in such neighborhoods.

Demographic Impacts on Central City Neighborhoods. According to community planners and other knowledgeable local observers, most central city neighborhoods -- both nonrevitalizing and revitalizing -- have undergone little or no change in their overall socioeconomic profile as a direct result of conversion activity: new residents are believed to resemble former residents with respect to racial, income, age, and employment characteristics. In those instances where conversions have occurred in revitalizing neighborhoods, local observers generally agree that changes in the neighborhood demographic or housing profiles are more a result of the overall process of revitalization than a direct result of condominium conversion. Thus, the relative impact of conversion even on these neighborhoods, is perceived by local officials to be minimal.

Most local housing market experts indicate that potential changes in the demographic profiles of central city neighborhoods are minimized since there are sufficient housing alternatives in the immediate vicinity. Former residents of converted buildings, who move rather than purchase their units, frequently stay in the area. However, there are exceptions; several local officials in jurisdictions with particularly low rental vacancy rates report that households leaving converted units sometimes have difficulty finding alternative housing in the neighborhood.

For this study, it is not possible to separate the sample of households into those who reside in revitalizing or nonrevitalizing neighborhoods. However, the survey does provide additional insights about the demographic impacts of conversions on central city neighborhoods in general. 30/ To assess these impacts, those households living in buildings before and after conversion are compared. 31/

Pre as well as postconversion residents of central city converted buildings tend to be middle- or upper-middle-income whites, aged 25 to 35, who are employed in professional or managerial occupations and who frequently do not have school age children. (See table VIII-3.) There are, however, some small differences between these two groups as shown in the following table:

30/ For a description of the surveys of current and former residents see chapter II.

31/ Obviously, these groups are not mutually exclusive. Tenant buyers and continuing renters who remain in the building after conversion are considered both pre and postconversion residents.

Table VIII-3

Pre and Postconversion Selected Socioeconomic Characteristics

Selected Socioeconomic Characteristics a/	Preconversion (%)	Postconversion (%)
Non-White Households	21	15
Incomes of Less Than $12,500	18	16
Incomes of $30,000 or more	31	38
Professional/Managerial Occupations	59	63
Retired	16	12
Age 65 or Older	23	17
Households with Children 18 Years Older or Younger	7	7

a/ For additional characteristics, see table VIII-9 at end of this chapter.

Therefore, while pre and postconversion residents in converted central city buildings are more similar than dissimilar in their socioeconomic characteristics, small changes have occurred. Postconversion residents are somewhat more likely to be white, nonelderly, and have higher incomes than tenants in the building prior to conversion. The buildings have become a little more homogeneous in terms of race, income, and age. Of course, the extent to which these rather small changes affect the overall neighborhood profile is dependent on the amount of conversion activity in the neighborhood.

The extent to which conversions are concentrated or dispersed varies across cities. 32/ (See, for example, exhibits VIII-3 through VIII-7.) In some communities, such as Boston, conversions are concentrated in certain sections of the city, but the level of conversion activity in any given neighborhood appears to be too low

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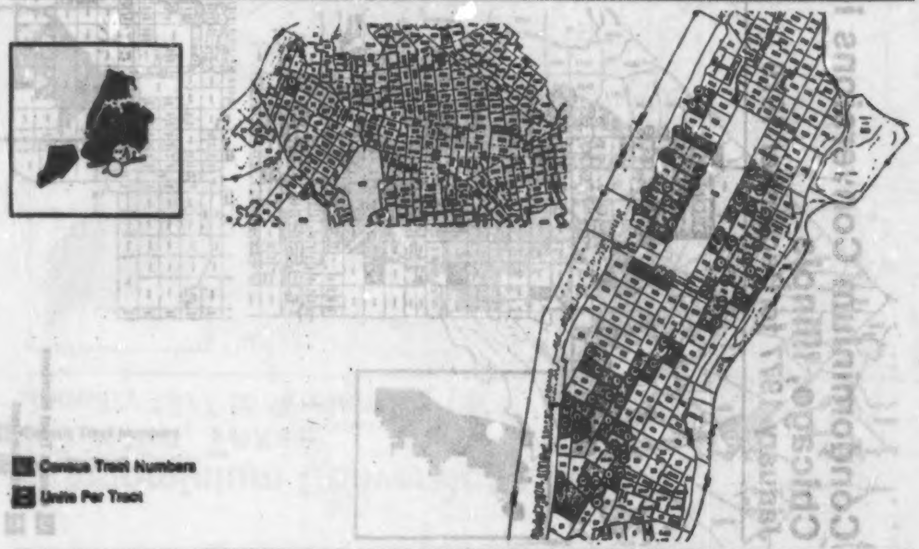
32/ To determine the degree of concentration of conversion activity, conversions within 18 central cities were mapped by census tract. These conversions occurred between January 1977 and December 1979 and are located in the 12 metropolitan areas with very high levels of conversion activity. These maps are presented in the field reports contained in Appendix 1.

Exhibit VIII-3

Condominium Conversions in New York, New York

January 1977 to December 1979


Census Tract Numbers
Units Per Tract

best copy available

Exhibit VIII-4

Condominium Conversions in Chicago, Illinois
January 1977 to December 1979

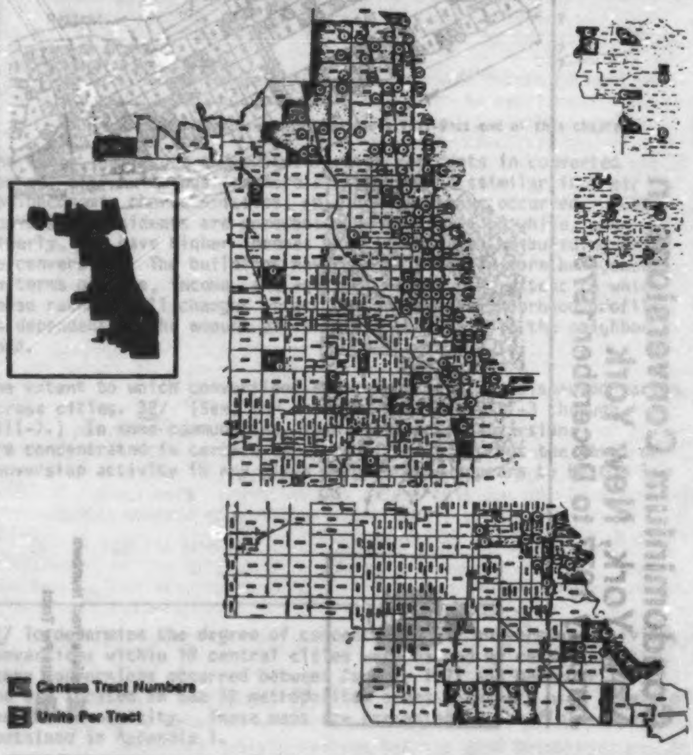

Census Tract Numbers
Units Per Tract

Exhibit VIII-5

Condominium/Cooperative Conversions in Washington, DC

January 1977 to September 1979

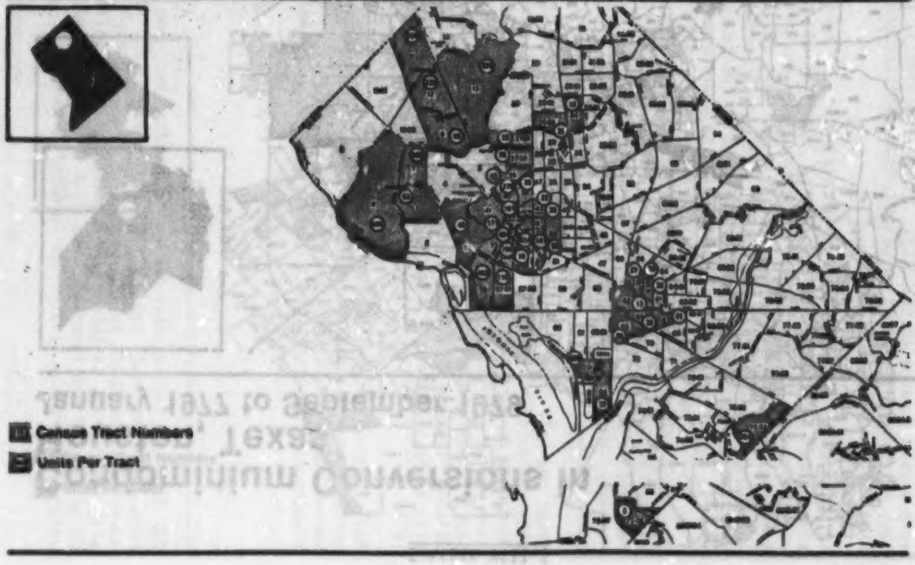

▨ Census Tract Numbers
● Units Per Tract

Exhibit VIII-6

Condominium Conversions in Houston, Texas
January 1977 to September 1979

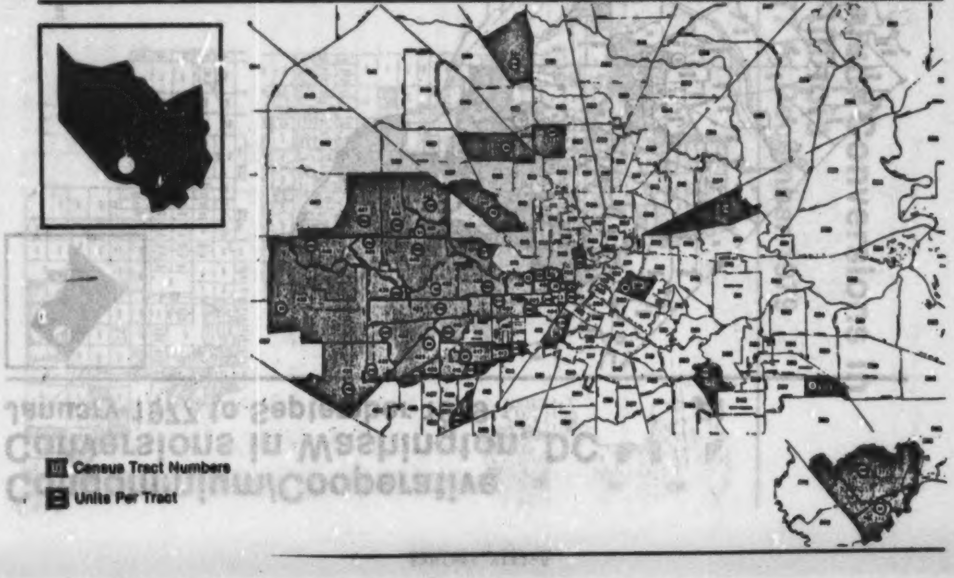
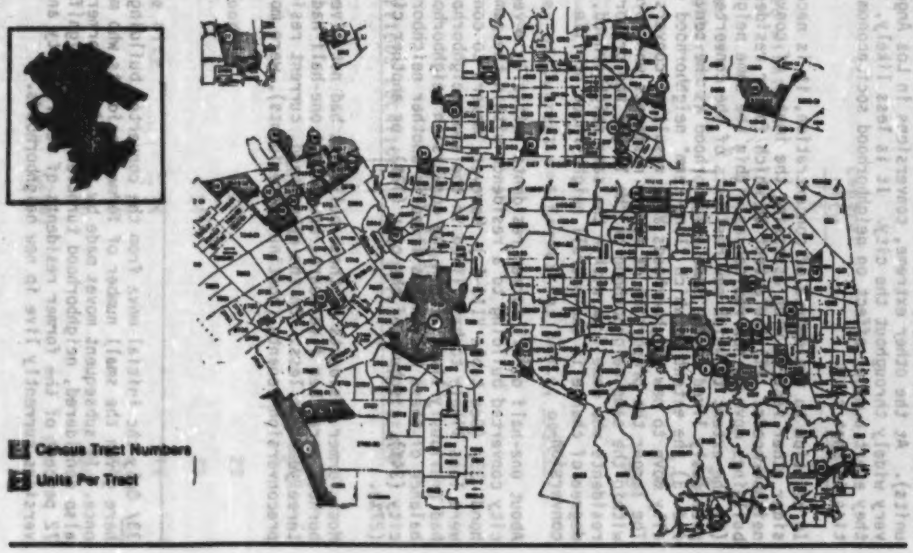

Census Tract Numbers
Units Per Tract

Exhibit VIII-7

Condominium Conversions in Los Angeles, California

January 1977 to September 1979


Census Tract Numbers
Units Per Tract

(1 to 50 units) to have a major impact on neighborhood socioeconomic profiles. Conversions in Chicago are also taking place primarily in several neighborhoods, especially the "Gold Coast" along Lake Michigan. The potential for neighborhood change is greater in these areas since the level of activity per census tract is high (ranging from 800 to 4000 units). At the other extreme, conversions in Los Angeles are dispersed very widely throughout the city. It is less likely, therefore, that they exert a major effect on neighborhood socioeconomic characteristics in that city.

In addition to the degree of concentration, it is necessary to consider other factors when assessing the impact of conversions on neighborhoods: (1) the extent to which former residents of converted buildings move to new residences within the same neighborhood; (2) the extent to which new residents of the converted buildings have previously lived in the same neighborhood as the converted building; and (3) the extent to which "long-term" neighborhood residents initially move to new neighborhoods as a result of conversion activity. The larger the proportion of former residents who move elsewhere within the same neighborhood or the larger the proportion of new residents who come from within the same neighborhood, the smaller the degree of change in the overall neighborhood profile resulting from conversion.

About one-half of all former residents initially moved from a central city converted building to a residence within the same neighborhood. 33/ (See table VIII-4.) However, movers to converted buildings were less likely to have lived in the same neighborhood; 27 percent had previously lived within the conversion neighborhood, while the balance of these households lived in another neighborhood within the city (34%), a suburb of the city (12%), or another city entirely (27%).

Most former residents of these buildings had not lived in the neighborhood more than five years, and almost one-half had lived there three years or less. On the other hand, current residents who were preconversion tenants (continuing residents), were more likely to

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33/ Only the initial move from the converted building is considered here given the small number of former residents who moved more than once. If subsequent moves made by some of the former residents are also considered, neighborhood turnover is more significant. Overall, 72 percent of the former residents of central city and suburban conversions currently live in new neighborhoods.

TABLE VIII-4

NEW LOCATION OF FORMER BUILDING RESIDENTS

	Central City %	Suburb %
Initially Moved Within Neighborhood	51	30
Initially Moved to Different Neighborhood	49	70
Total	100	100
Number	(71)	(110)

Source: Survey of Current and Former Residents, *op.cit*.

TABLE VIII-5

PREVIOUS LOCATION OF NEW BUILDING RESIDENTS

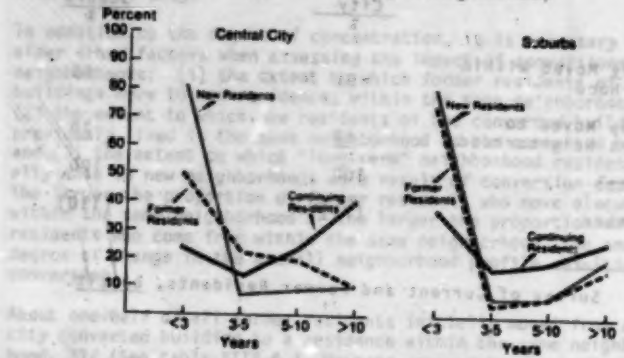
Location of Previous Residence	Central City %	Suburb %
Same Neighborhood	27	22
Same City	34	29
Suburbs of Same City	12	12
Another City	27	37
Total	100	100
Number	(248)	(241)

Source: Survey of Current and Former Residents, *op.cit*.

have lived in the conversion neighborhood longer: almost 40 percent of the continuing residents versus 9 percent of former tenants had lived in the area for more than ten years. (See figure VIII-1.)

FIGURE VIII-1

Length of Residency in Neighborhood



While the survey suggests that conversion does not typically contribute to significant shifts in the profile of neighborhood residents, interviews with local officials revealed interesting trends. Several formerly all-white, nonrevitalizing neighborhoods in Houston have experienced some influx of middle-income black professionals; and in Boston, middle-income whites and students are being replaced by upper-middle-income whites in the same neighborhoods. In St. Paul, Washington, D.C., and Hartford, conversions have attracted a number of upper- or middle-income, white-collar professionals to revitalizing neighborhoods whose residents were previously low- and moderate-income, blue-collar households.

Housing Impacts on Central City Buildings and Neighborhoods. Local housing planners suggest that conversion activity has little short-term impact on the condition of housing in central city nonrevitalizing or revitalizing neighborhoods: high-quality buildings in sound or improved condition are frequently the initial targets of central city conversions. As a result, most conversions in both kinds of neighborhoods undergo minor repairs or cosmetic changes (e.g., painting or carpeting of common areas) or are offered for sale in "as is" condition. However, buildings selected for conversion in revitalizing neighborhoods are more often in substandard condition and more often require major repairs (especially those which are vacant prior to conversion) than those in nonrevitalizing areas. Major repairs may include substantial work on, or replacement of, heating or air conditioning systems, plumbing, wiring, the roof, elevator(s), or even a "gut rehabilitation" of the building.

Most converted condominium and cooperative units in the Nation's central cities are in high-rise (more than 9 floors) buildings that are between 11 and 20 years old. (See table VIII-6.) These buildings are generally in good condition. Both before and after conversion, most current residents who were also preconversion tenants believe that the building required only minor repairs. About one-third felt that the condition of their building had improved while over one-half reported it to be in the same condition after conversion. In most cases, according to local observers, repairs at the time of conversion are minor or cosmetic in nature. In the minority of cases where major systems are replaced in the buildings or where the buildings are completely rehabilitated, they often are located in revitalizing neighborhoods.

Nonresidential Conversions. While the previous discussion has focused on conversions of rental buildings, a growing phenomenon, particularly in the Northeast, is the conversion of nonresidential buildings to condominiums or, in the case of New York, to cooperatives. Such conversions have been prevalent especially in Boston and New York, but they are becoming popular in many other areas as well, including Washington D.C. and Seattle. In general, the conversion of formerly nonresidential buildings to condominiums and cooperatives requires complete rehabilitation. Often these buildings are located in neighborhoods which are heavily commerical or industrial in character and which have experienced some economic decline due to the out-migration of business and industry. Although these neighborhoods do not precisely fit the central city revitalizing neighborhood described earlier, they are in the process of rejuvenating.

Prior to conversion, many of these structures were vacant hotels, warehouses, schools, or factories. These buildings often have appealing features, such as extensive square footage, large amounts of open space, and high ceilings. Before marketing many of these unconventional conversions, developers undertake major repairs, including installation of plumbing, electrical, heating and air conditioning systems, as well as kitchens and bathrooms. However, some of these conversions, commonly referred to as "residential lofts" in New York, undergo only minor repairs in the conversion process. In these instances, tenants are expected to provide such necessities as bathrooms, kitchens, or dividing walls. 34/

34/ Kristina Ford, Housing Policy and the Urban Middle Class (New Brunswick, NJ: Center for Urban Policy Research and the Citizens Housing and Planning Council of New York, 1978). About 90 percent of all loft conversions are "illegal" under local zoning ordinances or building codes.

TABLE VIII - 6

AGE AND TYPE OF CONVERTED BUILDINGS AS PERCEIVED BY CURRENT RESIDENTS

Age of Building (years)	Central City %	Suburbs %
Less than 5	1	6
5 to 10	23	53
11 to 20	50	25
21 to 30	4	3
31 to 40	2	6
41 to 50	9	2
Over 50	11	5
Total	100	100
Number	381	335

Type of Structure	Central City %	Suburbs %
High-rise	55	11
Mid-rise	19	13
Low-rise	26	68
Townhouse	0	5
Other	0	3
Total	100	100
Number	455	396

SOURCE: Survey of Current and Former Residents, op. cit.

TABLE VIII - 7

BUILDING/COMPLEX CONDITION AS PERCEIVED BY CONTINUING RESIDENTS

	Perceived Condition Before Conversion		Perceived Condition After Conversion	
	Central City	Suburb	Central City	Suburb
	%	%	%	%
Little or no repairs	28	34	35	39
Minor repairs	39	44	37	47
Major repairs	33	22	28	14
Total	100	100	100	100
Number	196	138	193	147

SOURCE: Survey of Current and Former Residents, op. cit.

TABLE VIII -8

CONTINUING RESIDENTS' COMPARISON OF POSTCONVERSION BUILDING CONDITION WITH PRECONVERSION CONDITION

Condition of Building After Conversion	Central City	Suburb
	%	%
Much Better	9	4
Somewhat Better	26	29
About the Same	56	60
Somewhat Worse	8	7
Much Worse	1	0
Total	100	100
Number	(197)	(146)

Source: Survey of Current and Former Residents, op. cit.

Some local observers in New York suggest that nonresidential conversions result in the displacement of various small businesses and jobs to areas outside of the city. Conclusions reached by the Mayor's Task Force on Loft Conversions in 1978 tend to refute this view: it found that loft conversions were not the major cause of the city's loss of manufacturing jobs, 35/ and that the loss of industry from the city had preceded the advent of loft conversions. Nevertheless, continued revitalization of some of these nonresidential neighborhoods and buildings may result in greater competition between demands for commercial and manufacturing space and demands for residential housing within the city.

To Recap. In central city conversions, pre and postconversion residents tend, for the most part, to resemble one another. There is some change, nevertheless: postconversion residents are somewhat more often white, nonelderly, and have slightly higher incomes. The impact on the neighborhood, however, will vary according to the degree of conversion activity and the mobility patterns of new and former residents. Conversions in revitalizing areas usually lead to no more change in the neighborhood's socioeconomic profile than conversions in nonrevitalizing areas. Any dramatic demographic change that occurs usually does so before initial conversion activity.

Most converted buildings in central cities are in sound condition and generally undergo little or no major repairs at the time of conversion. In these cases, there is little short-term impact on the buildings' condition. However, in the longer run, these buildings may be better maintained than if they had remained in the rental stock.

A considerable number of conversions, particularly those in revitalizing neighborhoods, undergo major rather than cosmetic changes at the time of conversion. For these buildings, conversion contributes to structural improvement.

Suburban Nonrevitalizing Neighborhoods. Conversions have occurred in nonrevitalizing suburban neighborhoods in 27 of the Nation's 37 largest SMSAs. In fact, 19 of these metropolitan areas have higher proportions of conversion activity in their suburban areas than they have in the central city. (See exhibit VIII-2.)

35/ Report of the Mayor's Task Force on Loft Conversion (New York: City of New York, July 1978).

In almost every case, these neighborhoods are located in close-in suburban jurisdictions and, in several respects, are similar to nonrevitalizing neighborhoods in central cities. They tend to be economically stable areas which have experienced neither deterioration nor revitalization. Given their economic vitality, these neighborhoods are seldom targeted for Federal or local funds for housing or community development, and they generally have not experienced major changes in either their socioeconomic or housing profiles. In most cases, neighborhood residents are typically middle- or upper-middle-income whites, who are employed in white collar professions.

There are, however, differences between the suburban and central city nonrevitalizing neighborhoods other than location. Generally, residential housing in suburban neighborhoods is newer than that of the central city. A large percentage of the suburban stock was built in the 1960s and 1970s, while much of the central city housing was constructed before 1940. Also, there tends to be a higher percentage of townhouses and garden apartments in these areas than in the central city neighborhoods experiencing conversion.

Demographic Impacts. According to local observers, most residents of suburban neighborhoods where conversions occur are middle- and upper-middle-income whites both before and after conversion. Their conclusion is based on the understanding that a relatively small proportion of the housing stock is being converted in most areas, and that current residents of converted buildings resemble those who lived there before the building was converted. 36/

Results from the household survey support this view. (See table VIII-9.)

36/ Suburban conversions were not mapped by census tract (as they were in the 13 central cities) so it is not possible to address the issue of the degree of concentration or dispersion of conversions in suburban areas of the 12 metropolitan areas with extensive conversion activity.

Table VIII-9
Pre and Postconversion Selected Socioeconomic Characteristics

Selected Socioeconomic Characteristics	Preconversion (%)	Postconversion (%)
Non-White Households	12	17
Incomes of Less Than $12,500	27	16
Incomes of $30,000 or more	27	27
Professional/Managerial Occupations	52	59
Retired	21	11
Age 65 or Older	18	13
Households with Children 18 Years Old or Younger	14	13

a/ For additional characteristics, see table VIII-10.

For the most part, conversions in suburban neighborhoods appear to have a minor effect on the income, age, and racial mix within individual buildings. 37/ When pre and postconversion residents are compared, postconversion buildings are somewhat less racially homogeneous; in terms of income and age of residents, however, converted

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37/ Although conversion activity, in most cases, is reported to have little or no effect on demographic profiles of suburban nonrevitalizing neighborhoods, atypical examples were offered by experts in several jurisdictions. One example was the conversion of a large garden apartment complex (3,400 units) in a Washington, D.C. suburb which resulted in significant displacement of low- and moderate-income households. Before conversion, most tenants were low- and moderate-income whites, employed in blue-collar or clerical occupations, but after conversion, there was an almost total turnover of residents. Except for race, new residents are significantly different from former residents. Prior to conversion, households tended to be married couples, frequently with children. As a condominium, the complex tends to attract smaller, one- or two-person, childless households. The household heads are generally middle-income whites who are employed in white-collar professions.

buildings are more homogeneous. A lower proportion of current residents than of preconversion residents have low or moderate incomes, are retired, and are over 65 years of age. Postconversion households, however, are no more likely to have school age children than preconversion households.

As noted earlier, the impact of conversions on a neighborhood is influenced by mobility patterns of both new and former residents. Similar to new residents of central city conversions, those moving to suburban buildings are more likely to have previously lived in another city (37%) than within the conversion neighborhood (22%). On the other hand, most former residents of these buildings (70%), unlike those in central cities, move to new neighborhoods when they first leave their buildings. Former residents of suburban buildings that are converted are even less likely to have lived in the neighborhood a long period of time than are former residents of central city buildings. About 75 percent of the surburban group lived in the neighborhood three years or less, but a somewhat higher proportion of the suburban households compared to those in central cities lived there ten years or more. (See figure VIII-1.) Although the potential for turnover, as a result of conversions, is greater in suburban neighborhoods, those who move are not likely to be long-time neighborhood residents.

Housing Impacts. Thus far, conversions have had a negligible impact on the quality of multi-family housing in suburban nonrevitalizing neighborhoods. Buildings selected for conversion in these areas tend to be newer than those in central cities. They are generally in sound condition and require only minor repairs. 38/ While half of the central city converted buildings are between 11 and 20 years old, slightly more than half of the suburban buildings are 5 to 10 years old. Unlike those in central cities, suburban conversions are more likely to be low-rise (one to four floors), than high-rise structures. (See table VIII-6.) Most current residents who were prior building tenants believe that their building and individual unit needed minor or no repair before conversion, while one-fourth of this group believe that major repairs are now needed and most feel that the postconversion condition of their buildings is the same (60%) or better (33%) than preconversion.

38/ There are exceptions. Several conversions in suburbs of Washington, D.C. and Philadelphia were in poor condition and required complete rehabilitation. Consequently, the overall condition of these buildings improved substantially. For further detailed discussion see the field reports contained in Appendix 1.

To Recap. For the most part, suburban conversion activity has resulted in slight changes in building racial and age mixes, but has not affected overall neighborhood socioeconomic characteristics. Similarly, conversion activity has had little effect on the overall condition of the residential housing stock since buildings selected for conversion are generally in sound condition.

Future Conversion Activity

This chapter has concentrated on conversions which have taken place throughout the 1970s, but the future may bring changes in the character and location of conversion activity. As noted in chapter VII, the supply of readily convertible rental buildings is already low in a few localities, and it is possible that buildings once considered unsuitable for conversion will, in the future, be converted. It is also possible that more conversions will occur in revitalizing or yet-to-be revitalized neighborhoods. For instance, in Evanston, Illinois, local officials report that by late 1979, the "best" buildings had largely been converted and a "second tier" of older, smaller buildings was beginning to be converted. More nonresidential buildings outside of New York and Boston are also likely to be converted in the future.

If increasing numbers of conversions take place in neighborhoods which are revitalizing, the conversion phenomenon could play a more significant role with respect to neighborhood change. It is likely that more such conversions would involve "gut" rehabilitation of structures nearing or at the end of their useful lives as rentals.

The restoration of these buildings would result in improving the neighborhood housing stock, but such rehabilitation would also affect a higher proportion of lower income and minority households. In the future, therefore, conversion is more likely to result in greater numbers of tenants moving from converting buildings, unless the conversion process is managed by the tenants themselves and/or unless it involves some type of special government or private assistance.

* * *

To date, condominium and cooperative conversions have had minimal impact on the fiscal capacity of local communities and on the demographic and housing profiles of most neighborhoods.

Any gain in local property tax revenues from condominium conversion is determined not only by the level of conversion activity within a community but also by tax rates and methods of assessment. Conversion of a rental building to a condominium may produce a slight revenue gain, because the aggregate assessment of the converted units is generally greater than the assessment of the property as a rental; in New York, where most cooperative conversions have occurred, subsequent reassessments have not been substantial and converted buildings are taxed at the same rate as prior to conversion. To date, the amount of revenue generated from the sale of converted units is small compared to total assessments in communities experiencing high levels of conversion activity. Thus, the relative impact of conversion on local fiscal capacity has been slight.

Conversions have had little direct impact on the three types of neighborhoods in which most activity has occurred. Although the race, income, and age mix of individual buildings may have changed slightly, the majority of postconversion residents resemble preconversion tenants with respect to these socioeconomic characteristics. In many cases, mobility patterns of new and former residents of converted buildings and the level and concentration of activity per neighborhood, minimize neighborhood change. As a result, the neighborhood demographic profile is basically the same as before. Even in revitalizing neighborhoods, most of the socioeconomic change has occurred gradually, through the revitalization process, rather than as a direct of conversion activity. These similarities in houshold characteristics suggest that the demand for public services in most conversion neighborhoods is basically the same as it was before conversion. For example, in both central city and subruban converted buildings, postconversion households are no more likely to have school age children than preconversion households. Thus, conversions probably have little effect on the demand for or public expenditure for public schools. Although there are undoubtedly expections, by and large, local government expenditures have probably not substantially changes as a result of conversion.

Most conversions are located in central city or suburban neighborhoods which have not experienced decline and are economically viable. Buildings selected for conversion in these areas are generally in sound condition and undergo minimal or no repairs. Therefore, the process of conversion has little short-term impact on the quality of these buildings. On the other hand, a significant number of conversions located in central city neighborhoods which are revitalizing, undergo major repairs; and in these cases, conversion contributes to the improvement of the neighborhood housing stock. Should such conversions become more common, the future impacts of conversion could differ from those measured to date.

Although the impact of condominium and cooperative conversion on communities and neighborhoods has been minor thus far, the potential impact is greater if the level or character of conversion activity should change. The impact on neighborhoods will be greatest in those cases where conversions are concentrated in a small number of neighborhoods rather than dispersed widely throughout a community.

Chapter IX

Tenant and Owner Impacts

The conversion of rental housing to condominiums and cooperatives affects communities and neighborhoods in different ways, as described in chapter VIII. Unquestionably, however, their primary impacts are on people -- people who rent or buy units that are converted.

Because of the effects on people who have to decide whether to buy, to move, or to remain as renters, the conversion phenomenon has sometimes become a divisive and emotional issue. In particular, assessment of the human impacts tends to highlight the involuntary relocation that can result. There are ample newspaper headlines that describe individual cases of adverse or even traumatic consequences in communities that have experienced a large number of condominium or cooperative conversions. This chapter documents the extent to which these adverse impacts occur.

Conversion proponents, on the other hand, emphasize various benefits for those who remain in or move to converted buildings. Although the economic benefits of ownership have been discussed earlier in chapter VI, the extent to which other positive impacts also occur is of interest here, as well.

The chapter begins by looking at the impacts on residents during the initial stages when a building is being converted. The proportion of residents who move out of the building once converted and their experiences in locating alternative housing are examined. Conversion related financial impacts on households are estimated in a third section, and the chapter concludes with a discussion of other issues which concern condominium or cooperative ownership. This final issue was not part of the original mandate for this study and consequently, is only briefly discussed; however, it warrants considerably more attention in the future as the social and other implications of tenure changes due to conversion become more apparent.

Initial Impacts on Tenants Living in Converted Building

Three types of tenant households are directly affected by condominium and cooperative conversions: those that continue to rent in the converted buildings (continuing renters); those that buy their units (tenant buyers), and those that move out of the buildings as a result of conversion (former residents). 1/ All of them are faced with the

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1/ The primary source of evidence used in this chapter is the U.S. Department of Housing and Urban Development, Survey of Current and Former Residents of Converted Buildings, December 1979 and January 1980. For a more detailed decription of this survey, see chapter II and Appendix 2.

same series of circumstances. As tenants in a building about to be converted, they have received notification that the conversion will occur and must decide how to respond. During the period following notification, they are often the recipients of attractive inducements to purchase, but at the same time, they may feel anxious about the decision which they must make.

As indicated in chapter III, converters benefit if a large number of existing tenants purchase their units. The more units sold to tenants, the lower the marketing costs for unsold units and the greater the certainty that all units will be sold in a shorter period of time. Interim financing for conversion projects is often easier to obtain or is obtained on more favorable terms if a large proportion of tenants decide to buy. Consequently, converters have an incentive to induce tenant purchase. 2/

Although it is usually in the converter's interest to retain renters in the building until the units are sold to provide continuing rental income, a conversion with substantial rehabilitation may be more difficult and costly for the converter if the tenants remain in occupancy. Also, the longer a tenant has a legal right to remain in the unit, the longer the unit remains off the sales market, and this adds to the carrying costs associated with it. In these instances, the converter has an incentive to induce tenants to move out.

In the discussion that follows, examples are given which highlight both positive and negative experiences of tenants at the initial stage of conversion. First, examples of converters' actions to ameliorate some of the adverse effects of conversion are described. Following this, examples are given which highlight negative tenant experiences at this early stage of conversion.

Assistance and Inducements

Most converters offer discounts to tenants as a matter of standard operating procedure. 3/ These discounts are usually in the range of 10 to 20 percent of purchase price. This is done to encourage

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2/ Some converters will have many potential buyers other than current renters and can sell to these households without discounts. In these cases, they may desire to minimize sales to current renters.

3/ Keith B. Romney, Condominium Development Guide (Boston: Warren, Gorham & Lamont, 1974), X-20 - X-21.

tenant buying and results in some benefit to both converters and buyers. In some cases, converters offer tenants the option to buy their units in "as is" condition to lower prices even further. The tenant has, therefore, the option of refurbishing the unit to the extent desired or affordable. In those cities where a percentage of tenants must purchase their units before conversion is approved, discounts can be more substantial. In New York City, for example, discounts of up to 50 percent have been reported. 4/

Converters in some SMSAs have assisted tenants by allowing them to continue leasing their apartments. 5/ This has often been done by selling the apartment to an investor who in turn leases it to the original occupant. In other cases, converters do not sell all of the units, but retain a small number of them to rent to certain tenants. One developer who has converted a large number of units in the Washington, D.C. area has not evicted a single tenant in the last several years. He does this in several ways, such as providing long-term leases for terms of up to five years, or selling units to the county which then leases them to existing tenants at subsidized rental rates.

Converters occasionally provide help to those tenants who decide to move out of their buildings. Most often, this aid consists of counseling and assistance in finding a new apartment rather than money to cover moving expenses, yet there are notable exceptions. In Columbus, Ohio, for example, one converter has, in some cases, voluntarily paid moving costs, forgone a month's rent, and given $100 in cash to households agreeing to terminate their leases and waive their rights to buy under Ohio law. Voluntary relocation assistance has been provided in the city of Hartford, Connecticut, on a broader scale than found in most other cities. In three conversions there, two nationally known but locally based insurance companies served as developers and contracted with a private firm to establish and implement a relocation program for displaced households. The program included the following components:

- Tenants were not given specific dates to vacate;
- Tenants were given assistance in finding new units;
- All moving expenses were paid;

4/ See field notes on the New York City SMSA in Appendix 1.

5/ The discussion here focuses on actions taken by converters. See chapter X for a discussion of tenant assistance programs enacted by local jurisdictions. In some cases, these programs help tenants to locate and move to new housing.

- o Security deposits for new apartments were paid by the developers and the old security deposits for vacated units were returned to households;
- o Departing households had to find "comparable" units; and
- o No harassment of tenants was allowed and no work could be done in the units while tenants still occupied them.

Local observers familiar with this relocation program estimate that it costs about $700 per family for moving expenses plus $300 per family for the new security deposits.

Although the preceding discussion suggests that some of the tenants' needs are met by actions of the landlord or converter, there is also evidence of negative tenant experiences. There are cases in which landlords attempt to "induce" tenant purchases or moves through the use of quick eviction or other methods when local regulations provide tenants with some period of time before eviction can legally occur. 6/

In one city, for example, a converter issued seven-day notices to tenants in a building to be converted. Subsequent tenant complaints, however, led to the cessation of the conversion project. A widow in another city reported that she received numerous phone calls from the converter of her building urging that she buy her apartment, which she felt she could not afford. When she refused, her children were called to ask why she did not buy. Unable either to buy or to continue renting at the newly doubled rent, she moved from the building. In another city, a resident of a building undergoing conversion was summoned from a business meeting to accept a "very important call" that proved to be a sales agent telling him that he had just two more days in which to decide whether or not to purchase his unit.

A study in Evanston, Illinois indicates that approximately 35 percent of all households feel the length of time allowed for decision making is inadequate. 7/ And, a Cambridge, Massachusetts study finds that 30 percent of the households feel they are harassed into moving. 8/

6/ Victor A. Cohen and G. Gregory Handschuh, "Tenant Protection in Condominium Conversions: The New York Experiences," St. John's Law Review 48, (May 1974), pp. 978-93

7/ James L. Fremming and Carla B. Howery, Condominium Conversions in The City of Evanston, (Evanston, Illinois: Evanston Human Relations Commission, 1978).

8/ Condominium Conversions in Cambridge: A Profile of New Owners and Former Tenants (Cambridge, December 1978).

If these examples are characteristic, the conversion process will produce pressure, anxiety, and anger among tenants. Moreover, low-income and elderly persons -- those who have fewer options -- are likely to be particularly anxious when faced with decisions to buy or move. One study reports that the aged often feel "out of control" when they are dealing with the uncertainty and changes that unplanned relocation can bring. 9/

The next section analyzes systematically these tenant experiences for a large number of households. The principal sources of information are the surveys of current and former residents of converted buildings.

Pressures to Move or to Buy

From the tenant's point of view, the conversion process usually begins with receipt of a notification from the converter/developer. (See table IX-1 App.) This notification generally includes a schedule detailing the amount of time tenants have to decide whether to buy and the length of time tenants may remain as renters if they choose not to buy. Typically, tenants in the 12 metropolitan areas surveyed for this study are given about 70 days in which to buy, although 20 percent are give 30 days or less. The median time given tenants to move is 80 days. (See table IX-2 App.)

TABLE IX-1

	Household Type 1/		
Perception of Pressure:	Tenant Buyers %	Continuing Renters %	Former Residents %
Yes	21	28	74
No	79	72	26
Total	100	100	100
Number	(185) 2/	(166) 3/	(298) 4/

Source: Survey of Current and Former Residents, op. cit.

1/ Percentages are based on weighted data.
2/ Perception of pressure to buy.
3/ Perception of pressure to move.
4/ Perception of pressure to move.

9/ Gail Brenner and Richard Schulz, "Relocation of the Aged: A Review and Theoretical Analysis," Journal of Gerontology, Vol. 32 (1977), p. 323.

Although these data convey some of the constraints facing tenants whose building are being converted, they do not indicate how tenants perceive the conversion process or whether tenants feel under pressure because their building is converting.

In hindsight, a minority of tenant buyers (21%) and continuing renters (28%) believe that they felt pressure to make their choice, once notified that the building would be converted. However, a large majority (74%) of former residents (those who moved out after conversion) perceived pressure. (See table IX-1.) Sense of pressure, therefore, appears associated with moving from a building which is undergoing conversion; this suggests that those continuing renters, who remain in their buildings only temporarily, may also feel pressure when a move is imminent.

When tenants and former residents discuss these pressures, they are generally not referring to harassing phone calls or to continuing personal confrontations between the new owner and the tenants, but rather to the anxieties and uncertainties that are associated with being told that they must move if they choose not to purchase their units. 10/ The tone of many of the responses suggests that tenants felt pressured by the difficult choice they had to make and if they decided not to buy, they felt pressured by the necessity of moving.

Even if the converter does his or her best to ease the anxiety associated with the decision to buy or move, the choices tenants are asked to make are not without potential for creating stress. A majority of former residents were perceived by interviewers as being angry and resentful about the conversion of their apartment. (See table IX-2.) In contrast, only 11 percent of tenant buyers were perceived as angry. 11/

10/ The following are examples of reasons why those choosing not to buy felt pressure: "I could not afford to buy, therefore, I had to move"; "The lease was terminated and I had to buy or move out"; and "I was asked if I wanted to buy; if not, I would have to move. There was no harassment. They were very considerate."

11/ Former residents were profiled as follows in interviewers' notes: "Mrs. ________ felt it was not fair to be forced to make the decision to move"; "Mr. ______ did not want to move, because of children. Housing is just non-existent. They were happy with school and the girl missed her friends"; and "the respondent felt very resentful about having to move, was very satisfied at ______ and went through a lot of worrying to find a suitable place."

TABLE IX-2
Attitude of Former Residents and Tenant Buyers Towards Conversion as Perceived by Interviewers

Attitude	Former Residents	Tenant Buyers
	%	%
Angry	56	11
Satisfied	18	77
Noncommital	17	7
Other	9	5
Total	100	100
Number	290	185

Source: Survey of Current and Former Residents, op. cit.

Although the prospect of moving appears to be the main source of pressure for former residents, a few tenants do cite instances of harassment. Some complain of overly persistent salespeople, while others are disturbed by the violation of privacy that accompanies the frequent showing of their apartment to prospective buyers. In one building, several former residents complained that the converter had failed to provide adequate heat, had not repaired the elevators when they were broken, and had not provided hot water.

Purchase and Relocation Assistance

The most common means used by converters to ease the transition to condominium or cooperative ownership involves purchase price discounts to existing tenants. (See table IX-3 App.) 12/ The widespread use of discounts -- about 90 percent of tenant buyers receive them -- accounts for some decisions to buy, but it is not certain whether the availability or amount of such discounts significantly increases the rate of tenant purchase.

Discounts are not the only inducements offered by converters to increase the rate of tenant purchase. Prearranged, end-loan financing packages secured by the converter sometimes result in mortgage fund availability below the current market rate. Additionally, remodelling is often provided as an inducement to buy.

12/ As noted earlier, discounting also benefits the converter if it results in greater sales to existing tenants.

Although converters often provide inducements to tenants who choose to buy, they rarely provide assistance to those households choosing to move. Thirteen percent of former residents received some type of relocation aid, but for only 4 percent did this include financial assistance. (See table IX-3 App.) Converters, therefore, are more likely to offer tenants incentives to buy rather than aid them in their move.

At times, tenants in special circumstances are also offered an option of continuing to rent. For example, converter developers, either themselves, or through an arrangement with an investor owner, may give elderly and handicapped tenants the option of continued renting. Increases in rent, however, may accompany the issuance of renewed leases.

Elderly and Nonelderly Persons. It has been reported that elderly persons are more likely than others to feel the pressure of conversion and to be anxious about the prospects of relocation or about having to make a substantial investment in purchasing their unit. 13/ Some have suggested that elderly tenants who ultimately purchase their units are "distressed purchasers," who buy because they have no other choice. There is some support for these contentions, but it appears as if not wanting to move is a more pervasive explanation than the unavailability of alternative housing or the pressures and anxieties associated with purchasing.

In terms of perceived pressure, 28 percent of elderly tenant buyers believed that they were under pressure to buy, compared to 18 percent of nonelderly tenant buyers. (See table IX-4 App.) 14/ However, only 3 percent of the elderly -- compared to 4 percent of those between the ages of 25 and 35 -- decided to purchase because they could not find alternative rental accommodations. Although there are many reasons for purchasing (see chapter VI) such as a preference for the neighborhood or building, half of all elderly tenants who purchased did so because they did not want to move out of their unit, compared to 17 percent of tenant purchasers under the age of 60.

Among those who do not purchase, elderly tenants are no more likely than their nonelderly counterparts to have felt pressure to move: 30 percent of elderly continuing renters felt pressure compared to 28 percent of their nonelderly counterparts; and 72

13/ David Marlin and Erica Wood, Condominium Conversion: Options for Tenants and Rental Market Protection (Washington, D.C.: National Council of Senior Citizens, 1979).

14/ This difference is not statistically significant at the .05 level.

percent of elderly former residents felt pressure compared to 74 percent of their nonelderly counterparts. Elderly former residents however, are more likely to express anger over conversion than those who are younger. Seventy percent of the former residents 60 and over were perceived by interviewers as angered by the conversion, in contrast to 52 percent of the nonelderly. (See table IX-5 App.) Nonpurchasing elderly households are, however, somewhat less likely than others to have received either discounts or other inducements to purchase, and they were no more likely to have received relocation assistance. (See table IX-4 app.) 15/

Income and Racial Differences. Because higher proportions of lower-income 16/ and nonwhite households are renters rather than homeowners, it is conceivable that these households are more likely to perceive greater pressure to relocate, since they are less able to purchase converted units. 17/ However, the evidence does not strongly support this expectation. Higher proportions of nonwhite than white former residents felt pressure to move; but among tenants continuing to rent, higher proportions of white households felt such pressure. Similarly, lower-income households were no more likely to feel pressure to move than were other income groups. (See table IX-4 App.)

The extent of assistance provided to these groups for purchase of a unit or for relocation appears to vary with income and race. Higher income tenants are more likely to be offered assistance to purchase their units while lower-income tenants are somewhat more likely to receive relocation assistance. The situation with regard to race is again mixed, however. Although nonwhites who continued to rent or who purchased their units were as likely, or more likely, than whites to receive purchase incentives; nonwhite former residents were less likely to receive inducements to purchase. 18/ Nonwhites were no more likely than whites to receive relocation assistance.

15/ The differences between the elderly and nonelderly here are not statistically significant at the .05 level.

16/ Eighty-nine percent of current residents and 77 percent of former residents are one or two person households. According to HUD regulations, two-person families earning less than 64 percent of the local SMSA median income are considered lower income. Since the average median income was $19,542 across the 12 SMSAs, lower-income households are those earning under $12,500.

17/ "Let's Put Some Limits on Condo Conversion," Planning 43 (September 1977), p. 25; U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, Condominium Housing Issues, Hearings before the Subcommittee on Housing and Urban Affairs on Condominium Conversions and S.612, Testimony of Marion J. Barry, Jr., 96th Cong., 1st. sess., 1979, p.4.

18/ These differences, however, are not statistically significant at the .05 level.

Households with and without Children. Condominiums and cooperatives are typically thought of as appealing to young, single, and smaller households. Therefore, it might be expected that these sorts of tenants are the recipients of more intense marketing efforts than households with children. If this is true, households with children might be more likely to feel pressure to move. However, this is not the case. Furthermore, tenants without children do not show a higher probability of reporting incentives to buy their units. (See table IX-4 App.)

Experiences of Former Residents

Having examined the experiences of tenants during the initial stage of conversion, this next section looks at what happens to those households who move from the building. Following a determination of the number of preconversion tenants who move out rather than stay in the building (either as renters or owners), the remainder of the section describes the former residents' housing search, postconversion housing, and neighborhood quality that results from this search.

Estimating the Proportions of Tenants Who Stay and Who Move. Various studies have estimated that at least two-thirds of the tenants in converted buildings do not purchase their units. (See table IX-3.) Although these studies focus on the rate of tenant purchase, their findings are often interpreted as indicative of the rate of displacement or outmoving. 19/ But rates of tenant purchase do not account for tenants who continue renting in a condominium or cooperative, and hence they underestimate the percentage of tenants who stay and overestimate the percentage who move. As noted in chapter VI, continuing renters sometimes lease their unit from a developer, landlord, investor, family member, or friend. Therefore, it is important to note that the proportion of tenants who stay in the building usually exceeds the proportion who purchase.

According to the household survey conducted for this study, 22 percent of residents in converted buildings purchase their units. Not all of the remaining 78 percent move out, however; some of them rent until a later time when they buy, some rent indefinitely, and some rent temporarily. Sixty percent of all continuing renters have definite plans about either buying (2%), renting indefinitely (42%), or moving in the future (16%) and therefore their plans can be accounted for in estimating the proportion of residents who will eventually move out. Because the other 40 percent are not certain, two different methods are used to measure the proportion of residents who stay or, conversely, the proportion who move out.

19/ Gregory Longhini and Daniel Lauber, Condominium Conversion Regulations: Protecting Tenants, (American Planning Association, 1979); and HUD Condominium/Cooperative Study, 1975, op. cit.

TABLE IX-3
Proportion of Tenants Not Purchasing Converted Units According to Other Studies

Studies Done in	Percentage of Tenants Who Do Not Purchase
Evanston, Illinois, 1978	80-88
Washington, D.C., 1978	68
Washington, D.C., 1979	68
Newton, Massachusetts, 1979	63
Seattle, Washington, 1978	66
HUD Condominium/Cooperative Study, 1975	75-85

Source: Condominium Conversion in the City of Evanston, op. cit.; Development Economics Group, Survey of Non-Purchasing Tenants in Apartment Buildings Converted to Condominium (Washington, D.C.: Development Economics Group, 1978); Development Economics Group, Condominium and Cooperative Conversions in the District of Columbia (Washington D.C.: Development Economics Group, 1979); Newton Condominium Study, (Newton, Massachusetts: Newton Mayor's Advisory Committee on Condominiums, 1975); Washington Public Interest Research Group, Wash PIRG Condominium Report (Seattle, Washington: June, 1978); U.S. Department of Housing and Urban Development HUD Condominium Cooperative Study, Vol. 1, (Washington, D.C.: Government Printing Office, 1975).

Other studies have attempted to estimate the proportion of tenant movers by surveying present occupants of converted condominiums to determine the proportion which were tenants before conversion. This method of estimating the proportion of outmovers is subject to error because it does not include tenant purchasers who bought but who have subsequently moved. These studies include Development Economics Group, Condominiums in the District of Columbia, (Washington, D.C.: Development Economics Group, 1975); Metropolitan Washington Council of Governments, Condominium Housing: A New Homeownership Alternative for Metropolitan Washington, (Washington, D.C., 1976); San Francisco Department of City Planning and Members of the Real Estate Industry, Condominium Conversions in San Francisco, (San Francisco, 1978). Of all these studies, only the 1975 HUD study attempts a national estimate of the rate of outmoving or displacement. In this case, however, the estimate was arrived at by asking condominium owners associations to estimate the percentage of tenants who purchase their units. Public Interest Research Group, Wash PIRG Condominium Report (Seattle, Washington: June, 1978); U.S. Department of Housing and Urban Development HUD Condominium Cooperative Study, Vol. 1, (Washington, D.C.: Government Printing Office, 1975).

Method 1 assumes that all of the uncertain continuing renters will actually move, while Method 2 assumes all will stay indefinitely in their converted buildings as either buyers or renters. Since some will stay and some will move, the estimates reflect the range of possibilities.

Table IX-4 shows that, using Method 1, the estimated proportion of tenants who leave is 69 percent. This method assumes a minimum number of continuing residents and a maximum number of outmovers among the currently uncertain tenants. Using Method 2, the proportion of outmovers is 61 percent. Table IX-5 describes the estimates resulting from Method 2.

Since a small percentage of tenants in converted buildings have bought their units but subsequently moved, they are also subtracted from the proportion of tenants who move out. When this is done, the proportion of tenant outmovers ranges between 58 percent (Method 2) and 66 percent (Method 1). 20/ Thus, the proportion of tenants who leave converted buildings is somewhat lower than what was estimated in some earlier studies, most notably, the 1975 HUD Condominium/Cooperative study.

It is important to note, however, that this range of figures represents an average range around which there is substantial variation among SMSAs, specific localities, or buildings. 21/ In some SMSAs, such as New York City and Chicago, relatively high proportions of tenants, especially in the central cities, purchase their units. In

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20/ Both of these proportions may overestimate the number of tenants who move because of conversion, since it is possible that many of these former residents would have moved within a year, even if their building had not been converted. Former residents, like other renters, are a fairly mobile population; 35 percent lived at their preconversion residence for less than a year, and only 13 percent for longer than five years. In some areas, however, tenants have lived in converting buildings for long periods of time and hence are less likely to move if there is no conversion. According to a 1975 study of Washington, D.C., for example, 54 percent of the former residents of converted buildings had lived in their residences for more than five years while only 14 percent had lived in their preconversion residences for less than a year.

21/ Figures cited in this and the following paragraph are based on estimates by local market experts, local officials, developers, and tenant representatives in the SMSAs cited.

TABLE IX-4

Estimation of Rate of Outmoving
Method 1
(Assuming a Minimum Number of Stayers)

Group	N
Tenant Buyers	188
Renters who have already purchased	3
Renters who can rent indefinitely	47
Renters in New York and Brookline who have a statutory right to rent indefinitely	25
Total number of stayers	263

$$\text{Rate of Outmoving} = 1 - \frac{\text{Total Stayers}}{\text{Total Current Residents}} = 1 - \frac{263}{861} = 69.4\%$$

Adjusting for residents who bought their units but who have since moved

$$\text{Rate of Outmoving} = 1 - \frac{293}{861} = 66.0\%$$

* * *

TABLE IX-5

Estimation of Rate of Outmoving
Method 2
(Assuming a Maximum Number of Stayers)

Group	N
Tenant Buyers	188
Renters who have already purchased	3
Renters who can rent indefinitely	47
Renters in New York and Brookline who have a statutory right to rent indefinitely	25
Renters who plan to purchase	9
Renters who say they "Have a lease"	8
Renters who are uncertain	30
No answer	22
Total number of stayers	332

$$\text{Rate of Outmoving} = 1 - \frac{\text{Total Stayers}}{\text{Total Current Residents}} = 1 - \frac{332}{861} = 61.4\%$$

Adjusting for residents who bought their unit but who have since moved

$$\text{Rate of Outmoving} = 1 - \frac{362}{861} = 58.0\%$$

New York City, this is partly due to high demand and partly due to the state law that requires at least 35 percent of tenants to purchase their units before a rental building is permitted to convert (in buildings with eviction plans; see chapter III). In Chicago, the high rate of tenant purchase, especially in luxury buildings along Lake Michigan, is generally attributed to the extremely high demand for units in this area. In other cities, there have generally been lower rates of tenant purchase.

There is also variation in the rate of tenant purchase from building to building. For example, in Phoenix there are reports of buildings with tenant purchase rates as low as 10 percent and as high as 65 percent. Similarly, in Baltimore, these figures range between 20 and 70 percent; in Dallas, between 6 and 60 percent; in Kansas City, between 0 and 50 percent; and in Chicago, between 10 and 80 percent. The high variability among buildings is due to a number of factors, including the way in which the units are marketed, their location, the incomes of tenants, and the cost of units. According to most market experts, higher rent buildings have higher rates of tenant purchase than do lower rent buildings.

Selected characteristics of the former residents were discussed in chapter VI. Table IX-6 reviews these findings and compares them to 1977 data on the national renter population.

TABLE IX-6
Comparison of Former Residents of Converted Buildings to the National Population of Renter Households

	Former Residents %	U.S. Renter Households %
Nonwhite	17	19
Annual Income		
Less than $12,500	20	69
Age 65 or older	20	17

In terms of their race and age, former residents are relatively similar to renters in general. However, considerably fewer of them have low incomes: nearly three and one-half times as many renters as former residents have incomes of less than $12,500.

Although these figures indicate that former residents of converted buildings are not more likely to be elderly or low income, other studies show considerable variation in these measures. Reports from Newton, Massachusetts and Baltimore have found that about two thirds of former residents in these communities are 65 years of age or older. 23/ In other communities, the fraction is much closer to 20 percent. The income of former residents also varies from one community to another. Nearly one-third of the former residents in Cambridge, Massachusetts earned less than $10,000 compared to ten percent in Evanston, Illinois. 24/ These data suggest that the character of the former resident population varies considerably from one community to another and thus the impact of conversion on specific population groups will also vary from place to place.

The Search for Other Housing. Because of the low and decreasing vacancy rates that currently characterize rental markets in many cities which have experienced conversions, former residents of converted buildings may experience difficulty in finding substitute housing. The following discussion focuses on this housing search. One indicator of problems in locating alternative housing is the amount of time required. Although this study did not obtain data on this question, several local studies have addressed the issue.

Evidence from Washington, D.C. for 1975 and 1978 shows that an average of one month was required to find new housing; more recent evidence (1979) suggests two months. (See table IX-7.) This may be due to the decline in the absolute number of rental units in Washington, D.C. and to an increase in the number of households since 1970. 25/ Data from Cambridge, Massachusetts, and San Francisco also suggest that the average housing search process takes between two and three months.

23/ Newton Condominium Study, op. cit. and Condominiums: Baltimore City, (Baltimore: Department of Housing and Community Development, City of Baltimore, 1980).

24/ Condominium Conversions in Cambridge: A Profile of New Owners and Former Tenants, op. cit. and Condominium Conversions in The City of Evanston, op. cit.

25/ Council of the District of Columbia, Final Report of the Emergency Condominium and Cooperative Commission (September 1979).

TABLE IX-7
Average Time Needed By Former Residents to Find New Housing as Reported in Several Local Surveys

Community and Date	Average Time Needed to Locate New Housing
Washington, D.C., 1975	1 month
Washington, D.C., 1978	1 month
Washington, D.C., 1979	2 months
Cambridge, Massachusetts, 1978	2-3 months
San Francisco, 1978	3 months

Source: Condominiums in the District of Columbia: The Impact of Conversion on Washington's Citizens, Neighborhoods, and Housing Stock, op. cit.; Survey of Non-Purchasing Tenants in Apartment Buildings Converted to Condominiums, op. cit.; Condominium and Cooperative Conversions in the District of Columbia, op. cit.; Condominium Conversions in Cambridge, op. cit.; Condominium Conversions in San Francisco op. cit.

As to the cost of moving, the median level of moving expenses for former residents was approximately $145 (See table IX-6 App.); 30 percent of all former residents considered these costs to be burdensome. (See table IX-7 App.) In contrast, no more than 10 percent of former residents received any kind of monetary relocation assistance either from converters or from government agencies. (See table IX-3 App.) Somewhat higher proportions of lower-income households, the elderly, and households with children consider their moving costs to have been a burden. (See table IX-7 App.)

Overall, one-half of all former residents experienced some degree of difficulty in finding new housing. Elderly, nonwhite, and to a lesser degree, lower-income households are more likely than others to experience such difficulties. (See table IX-8 App.) [26]

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[26] These relationships are not statistically significant at the .05 level.

Although about one-half of all former residents had difficulty finding new housing; the extent to which these difficulties were overcome and comparable units found remains to be determined. To provide a point of reference, former residents' evaluations of their new housing are compared with the evaluations made by those who replaced them in converted buildings (outside buyers). In other words, are former residents more or less satisfied with their current housing and neighborhood than outside buyers who purchased converted units in buildings vacated by the former residents?

Satisfaction with Current Residence. 27/ Ninety percent of all former residents of converted buildings are satisfied with their new units and buildings. (See table IX-9 App.) The remaining 10 percent who are dissatisfied compare with two percent of all tenant and outside buyers who are dissatisfied. In their own opinions, former residents have done nearly as well as buyers of converted units. Not only are most former residents satisfied, but four out of five feel their new residences are as good as, or better than, those they vacated; 18 percent, on the other hand, consider their new residences to be inferior to the ones they lived in prior to conversion. (See table IX-8.) In comparison, about 10 percent of all outside buyers feel their new condominium or cooperative units are worse than their previous residences. 28/

27/ These survey responses reflect former residents' evaluation of their current residence. For most, (75%) the current residence is the first residence since moving from the converted building. However, for 25 percent of the former residents who have moved more than once, the current residence is not their first residence.

28/ The majority of former residents also evaluate selected features in their buildings (e.g., heating, plumbing, air conditioning, appliances, recreation facilities) as the same or better compared to preconversion dwellings. In most cases, there appears to be little or no difference (see table IX-11 App.) in the way former residents and outside buyers evaluate the condition of their present residences relative to preconversion dwellings. Equally large proportions of both groups view their new dwellings as the same or better than their former residences. The major exception concerns recreational facilities; 42 percent of all former residents found them to be worse in their new residences compared with 16 percent of outside buyers of condominium and cooperative units. This is not surprising, since rental buildings with special amenities like swimming pools are more likely than others to be converted.

TABLE IX-8
Comparison of Present Residence with Preconversion-residence for Former Residents and Outside Buyers

	Household Type a/		
		Outside Buyers	
Evaluation of Residence	Former Residents	Comparison of Units	Comparison of Buildings
	%	%	%
Better	58	60	54
Same	24	30	33
Worse	18	10	13
Total	100	100	100
Number	(294)	(347)	(347)

Source: Survey of Current and Former Residents, op. cit.

a/ The former residents were asked to evaluate "The Residence" while the outside buyers were asked to evaluate the unit and the building.

Outside buyers of converted units and former residents, therefore, tend to view their current residences similarly. Moreover, elderly households and households with children among former residents are as likely as other households to see their new residences as being as good or better than their preconversion dwelling. (See table IX-10 App.) On the other hand, nonwhite and lower-income households are slightly more likely to find their new residences worse than their previous ones. 29/

Change in Neighborhood. A rather high proportion (72%) of all former residents no longer live in thier preconversion neighborhoods. (See table IX-12 App.) 30/ Also, a significantly higher proportion of nonwhites (88%) than whites (68%) said they presently live in a new neighborhood. 31/ Although it is not known if these households

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29/ These relationships are not statistically significant at the .05 level.

30/ No formal definition of neighborhood was provided; respondents defined the term in a manner that seemed appropriate to them. Also, this proportion differs from those reported in chapter VIII, because it refers to the household's current neighborhood, rather than the one it first moved to after conversion.

31/ This relationship is statistically significant at the .05 level. There were no differences among age, income, or family status groups in terms of migration from the neighborhood.

changed neighborhoods voluntarily or if they changed because they could not find comparable housing, it is evident that conversion is associated with a substantial amount of outmigration of former residents from their preconversion neighborhoods. Despite this, 85 percent of those who did switch neighborhoods find that their new one is as good, if not better, than their preconversion neighborhood. (See table IX-9.) In comparison, only 78 percent of the outside buyers perceive their new neighborhood to be as good as their previous one. Judging by their own opinions, then, former residents who change neighborhoods have done as well as, if not better than, condominium or cooperative purchasers in locating higher quality neighborhoods. 32/

TABLE IX-9

Comparison of Present Neighborhood with Preconversion Neighborhood for Former Residents and Outside Buyers a/

How Does This Neighborhood Compare With the Preconversion Neighborhood?	Former Residents %	Outside Buyers %
Better	55	36
Same	30	42
Worse	15	22
Total	100	100
Number	209	260

Source: Survey of Current and Former Residents, op. cit.

a/ Asked only of those households changing neighborhoods.

The high proportion of former residents who leave their preconversion neighborhood may result in frequent disruptions of social ties that were established in the local area. The elderly are especially susceptible in this regard since they are more likely to have lived in the same buildings or neighborhood for a long time.

32/ Although overall evaluations and comparisons of present and previous neighborhoods are useful to determine the impact on former residents, they can hide variations in certain aspects of neighborhood quality, such as quietness and safety, proximity to specific services, and the quality of local public services. On almost all of these attributes, at least eight of every ten former residents who moved to a new neighborhood found the new environment to be of the same or higher quality as their preconversion neighborhood.

About one-sixth of all former residents had all or most of their friends and relatives living in their preconversion neighborhoods, but the vast majority do not have social networks which are strictly tied to the local area and thus are able to maintain their preexisting social relations when they move to a new neighborhood. (See table IX-13 App.) Furthermore, eight out of ten former residents live as close, if not closer, to their friends and relatives as they had at their preconversion residences. (See table IX-14 App.) Although lower-income and nonwhite households find it more difficult to visit their friends after their move, the elderly do not. (See table IX-15 App.) 33/

The majority of former residents give good ratings to their new neighborhoods, but this is not the case for low-income and nonwhite tenants. Three times as many lower-income households (31% versus 10%) like their new neighborhood less than they liked their former one. (See table IX-10.) Thus, although only 15 percent of former residents who switch neighborhoods consider their new neighborhood to be worse than their previous one, 40 percent of these are lower-income households.

Nonwhites are more likely than whites to evaluate the general quality of their new neighborhood, and their neighborhood's police protection, safety, medical facilities, and shopping facilities, and proximity to friends or relatives as worse than their preconversion neighborhood. (See table IX-16 App.) 34/ Neither elderly households nor households with children have a higher probability of rating their new neighborhood as worse than their preconversion one. (See table IX-10.)

Finally, advanced age undoubtedly restricts mobility and hence makes accessibility to services dependent upon residential location. Nevertheless, the elderly are as likely, or more likely to perceive their new residence to be as accessible to services as their preconversion location. (See table IX-17 App.)

33/ These differences are not statistically significant at the .05 level.

34/ The relation between race and change in overall neighborhood quality is not statistically significant. The relation between income and change in neighborhood quality, and between race and these measures of neighborhood attributes, however, are significant at the .05 level.

TABLE IX-10
Comparison Between New and Old Neighborhoods By Selected Background Characteristics a/

Characteristics	Better %	About the Same %	Worse %	Total %	Number %
Age					
Less than 60	57	30	13	100	144
60 or more	52	33	15	100	63
Race					
Non-white	62	16	22	100	36
White	54	34	12	100	172
Income					
Less than $12,500	42	27	31*	100	42
$12,500 or more	59	31	10	100	150
Family Status					
Has children	64	32	4	100	28
Doesn't have children	52	30	18	100	181

Source: Survey of Current and Former Residents, op. cit.

a/ Asked only of former residents who changed neighborhoods.

* Statistically significant at .05 level.

Financial Impacts on Former Residents and Continuing Renters

So far, many of the nonfinancial impacts of conversions have been discussed. This section examines changes in the costs and quality of shelter following conversion. It also assesses how many former residents could have afforded to purchase their preconversion residence.

Impacts on Former Residents. For former residents who continue to rent, the median change in total costs per household is an increase of eight percent. However, 28 percent of all former residents who still rent pay at least 25 percent more in housing costs than they did in the converted building, while another 30 percent pay less than they did prior to conversion. (See table IX-11.) For those former residents who have subsequently purchased a residence, the median change per household is an increase of 68 percent in housing costs without tax benefits considered.

TABLE IX-11
Percent Change in Total Monthly Costs Prior to and Following Conversion

Percent Change in Total Costs	Former Residents					
	Owners	Renters	Tenant Buyers	Outside Buyers	Continuing Renters	New Renters
	%	%	%	%	%	%
Lower Costs	6	30	16	16	2	26
No Change	0	5	1	0	47	3
+1 to +10	6	22	9	25	25	6
+11 to +25	6	15	11	26	19	16
+26 to +50	11	22	28	23	5	17
> + 50	71	6	35	10	2	32
Total	100	100	100	100	100	100
Number	(49)	(164)	(155)	(261)	(155)	(117)
Median	+68%	+8%	36%	+62%	+0.4%	+25%

Source: Survey of Current and Former Residents, _op_. _cit_.

To obtain a more complete picture of what happens to former residents of converted buildings, it is necessary to examine changes in both monthly costs _and_ changes in housing quality. 35/ Figure IX-1 shows the residential history of former residents since conversion. Twenty six percent presently own a house, a cooperative, or a condominium; 36/ 70 percent presently rent; and 4 percent live rent free. The 70 percent who still rent can be classified into four categories depending on the changes in housing quality and cost. 37/

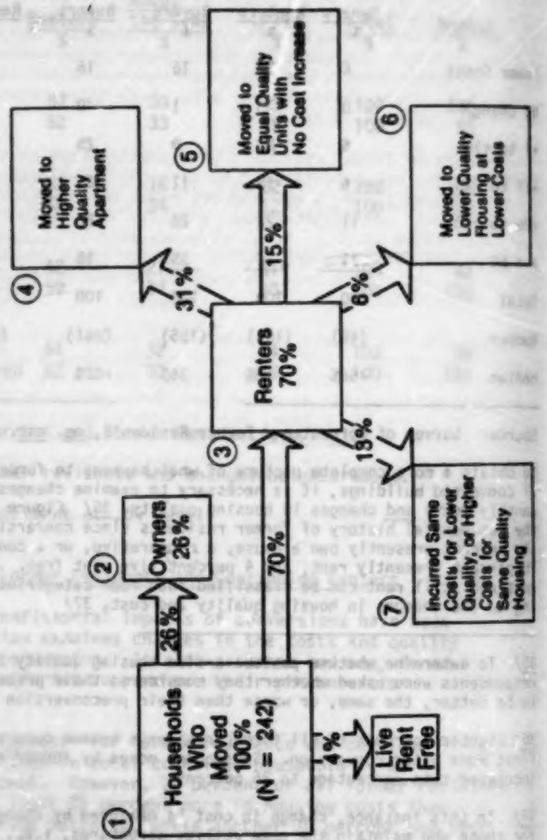
35/ To determine whether postconversion housing quality is comparable, respondents were asked whether they considered their present residence to be better, the same, or worse than their preconversion residence.

36/ Eighteen percent of all former residents became owners upon their first move after conversion. Subsequent moves by former residents increased this percentage to 26 percent.

37/ In this instance, change in cost is measured by change in rent for those who maintain the same utility structures, i.e., who either continue to have utilities included in their rent or have them excluded both before and after conversion.

EXHIBIT IX-1

Household Experiences After Moving from Converted Residence


①
Households Who Moved 100% (N = 242)
26%
②
Owners 26%
70%
③
Renters 70%
4%
Live Rent Free
31%
④
Moved to Higher Quality Apartment
15%
⑤
Moved to Equal Quality Units with No Cost Increase
8%
⑥
Moved to Lower Quality Housing at Lower Costs
13%
⑦
Incurred Same Costs for Lower Quality, or Higher Costs for Same Quality Housing

1. Households moving to higher quality rental units: 31 percent of all former residents moved to higher quality rental housing. A little over one-half of these households paid higher costs in order to obtain higher quality housing. 38/

2. Households moving to rental housing of equal quality, with no cost increase: 15 percent of all outmovers were able to rent equal quality housing for roughly equal or lower costs. 39/ Sixty percent of these households were able to find equal quality housing at lower costs than they had previously paid.

3. Households moving to lower quality rental units at lower cost: 6 percent of all outmover households moved to lower quality housing that rented for less than they had paid prior to conversion. It is not clear, however, whether these households voluntarily accepted lower quality housing because they wanted to reduce housing expenditures or were constrained to choose lower quality units because they could not find comparable housing that was affordable.

4. Households incurring higher rents for equal quality housing or paying as much or more than previously for housing of lower quality: 18 percent of outmover households received less housing value for their dollar compared to their preconversion residence. Of these households, one-fifth paid higher costs for lower quality housing.

Those households receiving less housing value for their dollar (Group 4) can be considered adversely affected by condominium conversion. The effect of conversion on Group 3 depends on whether their acceptance of lower quality housing was voluntary constrained by lack of choice. Thus, the proportion of former residents who have been made worse off since conversion in terms of housing quality and housing cost ranges between 18 and 24 percent.

The elderly are more likely than the nonelderly to be members of group 4. While 14 percent of former resident households less than 60 years of age are in the group 4 category, 27 percent of those 60 and over are adversely affected in terms of their postconversion housing. This pattern is not repeated when racial, income, and family status differences are examined.

38/ "Higher costs" are defined as increases of more than 10 percent above preconvesion rents.

39/ "Roughly equal costs" are defined as rents no more than 10 percent higher than previous costs.

Impacts on Continuing Renters. Fifty-one percent of continuing renters experienced an increase in housing costs during the conversion process. In most cases, the increases were small. One-fourth of all continuing renters, however, paid rents that were more than 10 percent higher than they had paid prior to conversion. (See table IX-11.) 40/

The Affordability of Converted Units. Two different approaches are used to determine the actual proportion of former residents who could not afford to buy their units. The first compares tenants' annual incomes to the purchase prices of their units to determine if they would qualify according to traditional lending institution criteria. The second examines tenants' responses when asked directly whether their perceived inability to purchase was a consideration in their decision to move rather than to buy.

To measure a household's ability to afford a unit, the banking and real estate community often uses the following criterion: a buyer can afford to purchase a property that is roughly equal to two-and-one-half times the buyer's annual household income. Application of this formula produces mortgage payments which are approximately equal to 25 percent of monthly income. While this "2-1/2 times" rule works well at lower interest rates, it is less applicable as interest rates rise above 10 percent. At high interest rates, the sales price affordable by prospective buyers must be revised downward. For example, at an interest rate of 13 percent, a buyer can qualify for a loan at two times annual household income if mortgage payments are equal to 25 percent of income. 41/

40/ In contrast, 32 percent of all outside renters (households that moved into the building after conversion) paid more than 50 percent above their previous housing costs. (See table IX-11.)

41/ At a 10 percent interest rate with a five percent downpayment, and a mortgage amortized over 30 years, the "2-1/2 times" rule generates a monthly mortgage payment which equals 25 percent of the owner's monthly income. At an 11 percent rate, a household with income of $20,000 could only afford a $46,000 home or 2.3 times their annual income. At a 12 percent interest rate, the maximum affordable price is 2.13 times income. These data are based on standard amortization tables.

Thus, all else being equal, rising interest rates lower the affordability of a given unit. 42/

The median purchase price of units vacated by former residents is $43,000 and the distribution is as follows:

Price of Unit	Percentage of Units
Under $30,000	13
$30,000 to $39,999	26
$40,000 to $49,000	30
$50,000 to $69,000	19
$70,000 and Over	12
Total	100

Application of the rule indicates that 42 percent of all former residents could not have afforded to buy their converted units. However, the proportion of tenants who could not afford to buy rises dramatically with the price of the unit. (See table IX-18 App.) 43/ While 86 percent of former residents who lived in units selling for less than $30,000 could afford to buy them, only 32 percent could buy when unit prices exceeded $70,000.

A second measure of affordability is the tenant's own opinion of what was possible at the time of conversion. Forty-seven percent of all former residents say that being unable to afford the unit was a factor in their decision to move rather than purchase.

This percentage is somewhat higher than that which would be expected based on the first measure, which compares income to purchase price. The discrepancy between perceived affordability and calculated

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42/ This rule may slightly overestimate the affordability of some transactions made near the close of the survey period. Households included in the survey lived in buildings which were converted between 1977 and 1979. According to the Federal Reserve Bulletin, conventional mortgage interest rates rose from 8.95 percent in 1977 to 12.5 percent by November 1979.

43/ This does not mean that tenants could not afford to purchase units elsewhere. Rather, it means that tenants could not exercise the option to buy their converted unit.

affordability may be attributed to a variety of factors other than income. 44/ Whatever the explanation, it is clear that, although a substantial number of former residents move because they cannot afford their unit, a majority move for other reasons. These reasons have been discussed in more detail in chapter VI.

Certain types of people are more likely to say one reason they decided to move was because they could not afford to purchase their units. (See table IX-19 App.) For example, younger former residents and those earning less than $12,500 more frequently say that they moved because they could not afford to buy. Interestingly, the elderly (over 65) are no more likely than others to give unaffordability as a reason for moving.

Impacts on Buyers

The Costs and Benefits of Ownership. Total cash outlays for tenant purchasers are typically 36 percent higher than total costs for rent, utilities, and fees prior to conversion. (See table IX-11.) 45/ In comparison, the median percentage increase in monthly costs for outside buyers is 62 percent.

The differences in cost increases for outside buyers versus tenant buyers result from several factors. Tenant buyers are likely to receive discounts and other inducements to purchase that reduce the total costs of owning, while outside buyers more often pay full market value. In addition, since many tenant purchasers buy the same unit which they rented, the size and quality of the unit often remains the same. On the other hand, outside buyers are more likely to purchase units which differ substantially from their previous residences in price, quality, and size.

44/ For example, a family's annual income may be sufficient to support the monthly mortgage payments, but the family may not have accumulated enough money to cover the downpayment. Alternately, a household may have additional expenses for medical care, child care, alimony, etc., that affect the ability to pay for housing, but which are not taken into account when affordability is based soley on gross income. Also, there is a possibility that some households may have overestimated the purchase price or the total costs involved in owning a unit.

45/ Total cash outlays for owners are defined as the sum of payments for mortgage (principal and interest), insurance, real estate taxes, condominium and recreation fees, and all utility costs not included in fees.

Although owners' monthly housing fees can increase substantially, the real increase is lessened by tax deductions which are available to homeowners. Owners can deduct real estate taxes and mortgage interest payments on Federal income tax returns and, therefore, reduce income tax liability. The tax savings due to the deduction of mortgage interest for condominium owners purchasing their units between 1977 and 1979 averaged $130 per month. 46/

A condominium or cooperative also has investment potential that can result in profit to the purchaser after resale of the unit. Assuming an annual 10 percent rate of appreciation and a median price of $43,000 (see table IX-20 App.), the benefit to the owner due to appreciation is $4,300 in the first year. Unlike tax asvings, however, this saving is tied up in the value of the dwelling and is captured only on the sale of the unit.

Homeowners' Issues. Given the expenses associated with purchasing a home and the importance of protecting homeowners' investments, consumer protection for condominium buyers has received increased attention in the last few years, both in the press and in state and local

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46/ The actual dollar value of tax savings realized by owners of condominium units can be estimated from data on household income, household size, and the dollar value of annual interest paid on the mortgage. The average owner of a converted condominium pays $5,555 per year in mortgage interest (30 percent of the 540 tenant and outside buyers surveyed were able to say how much interest they paid). The typical owner also earns between $21,500 and $26,000, thus falling into the 28 percent income tax bracket if there are two persons in the household. At this level, the average yearly savings for a two person household is $1,555 or $130 per month. This calculation is based on the assumption that two person households have deductions totaling at least $3,400 (zero bracket deduction) before taking a homeownership credit. The overwhelming majority of renters in the United States take zero bracket deductions of $2,300 for one person households and $3,400 for married households. Those families taking a zero bracket deduction are likely to have itemized deductions of approximately equal or somewhat lower value than the zero bracket deductions allowed. Since these renter households do not itemize deductions, it is impossible to tell what the actual dollar value of deductions would have been had they submitted itemized accounts. According to the Office of Tax Analysis of the U.S. Department of the Treasury, only 20% of itemized tax returns are submitted by renters. Based on a computer analysis of 1975 tax returns, updated to 1979 levels, approximately 80 percent of taxpayers who submitted itemized return take deductions for mortgage interest and/or real estate taxes.

legislative bodies. 47/ Most real estate specialists contend that, although less scrupulous developers may market buildings in poor physical condition, most developers conscientiously offer buyers high quality homes in basically sound condition. To some extent this is corroborated by the fact that the majority of buildings converted to date have been high quality, middle-income, or luxury buildings which have not needed extensive repairs.

There are, however, instances of purchaser complaints about inferior quality buildings, misrepresentation of building condition, and inadequate renovation or repairs. In Houston, for example, owners of a 300-unit building began to experience roof problems two years after conversion. Since the reserve funds that were maintained were inadequate to meet the costs of replacing the roof, individual owners are bearing the repair costs at an average of $2,000 per unit. In general, complaints are more frequent in older converted buildings or those which, regardless of age, were under-maintained as rentals.

Previous research provides somewhat contradictory findings on the prevalence of unexpected maintenance costs in converted condominiums or cooperatives. A Washington, D.C. study found that 54 percent of the owners of converted units rated the construction quality of their buildings as "good," while only 6 percent rated building quality as "poor." Owners of converted units, in fact, appeared to have fewer complaints about the quality of building construction than owners in newly constructed buildings had. 48/

In this study, over 80 percent of the residents of converted condominiums and cooperatives report that their buildings need no more than minor repairs (see table IX-21 App.), while 17 percent

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47/ Several cities and a few states have enacted a range of buyer protection measures including requirements that developers meet modern codes, provide engineering reports on the condition of major systems, and provide warranties to assure the quality of the converted unit. Some communities have developed more stringent building codes for condominiums than those which apply to rentals. For example, a few cities require additional sound-proofing, insulation, fireproofing, or separate metering of utilities. See chapters XI and XII for a complete discussion of state and local ordinances.

48/ Metropolitan Washington Council of Governments, *Condominium Housing: A New Homeownership Alternative for Metropolitan Washington*, *op. cit.*, p. 160. See also chapter X for a discussion of consumer protection provided by secondary mortgage market institutions.

believe that their buildings are in need of "major repairs." Interestingly, residents new to the buildings are more likely to rate them as needing fewer repairs than are continuing residents who lived there prior to conversion. The low perceived need for repairs is primarily because better maintained or substantially rehabilitated buildings are most often candidates for conversion.

Underestimation of Maintenance Costs. To market units more quickly, a seller may have incentive to underestimate the costs of homeownership to prospective buyers. These prospective costs include operating costs for utilities, management, and services; reserves for capital improvements; or future building repair costs.

The 1975 HUD study on condominiums and cooperatives examined this issue in great detail. It reported that 54 percent of homeowner association executives found developer estimates to be reasonably accurate, while approximately one-third believed that developers underestimated the maintenance costs. 49/

As of 1980, converters' estimates of maintenance costs are judged to be accurate by 67 percent of converted condominium or cooperative ownrs; 29 percent reported higher-than-estimated costs, and four percent reported lower-than-estimated costs. (See table IX-22 App.)

Services, Management, and Renter-Owner Relations. In general, a high proportion of converted condominium residents are satisfied with their units and buildings. (See table IX-23 App.) Only two percent of condominium owners are dissatisfied with their units, and no more than five percent are dissatisfied with their buildings. Renters in converted buildings show a greater tendency to be dissatisfied, but the difference between renters and owners is small.

One feature of condominium living is the maintenance services provided to residents. About 90 percent of owners receive services through membership in a condominium association or through payment of a service contract or maintenance fee, and most owners and renters (85%) are pleased with the type and quality of services provided under these arrangements. (See tables IX-24 and IX-25 App.) These findings parallel earlier results from the 1975 study.

An issue of concern to some condominium residents is the relationship between renters and owners. Several previous studies have reported that a number of condominium owners dislike living near renters

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49/ HUD Condominium/Cooperative Study, op. cit., p. V-52.

because the latter allegedly lack the incentives that owners have to exercise care over their property. 50/

Ten percent of both renters and owners have experienced "confrontations" with members of the opposite tenure group. (See table IX-26 App.) The majority of complaints reported by owners concerned noise, unruly pets, and children; continuing renters more often complained about conflicts engendered by the process of conversion. However, even though only one of every ten condominium owners perceived conflicts between owners and renters, almost one-half would rather live in buildings without renters (see table IX-27 App.). Thus, although most owners of converted condominiums are satisfied with their residences, many of them prefer living near owner-occupants only.

* * *

At the time of conversion, three of every four tenants who move from the building and one in four tenant buyers feel some degree of pressure, primarily because of the choice they must make between buying and moving rather than because of harassment by the converter. There is no strong evidence that elderly or lower income persons, nonwhite households, or households with children are more likely to experience this pressure. Nevertheless the fact that a majority of former residents felt pressure and exhibited anger indicates their emotional stress caused by conversion.

Tenants are provided a variety of inducements and assistance to cushion the effects of conversion. Most tenants in converting buildings are offered incentives to buy, primarily in the form of discounted purchase prices. Additionally, the building's prior tenants are sometimes given the opportunity to continue renting from an investor owner, converter, or another party. The incidence of relocation assistance to former residents is much less. Of those who move, 1 in 8 receives some type of relocation assistance from the converter: 1 in 25 receives actual cash from converters or landlords, with 1 in 4 lower income households receiving this type of assistance.

50/ Carl Norcross, Condominiums and Townhouses, (Washington, D.C.: Urban land Institute, 1973); and Condominium Housing: A New Homeownership Alternative for Metropolitan Washington, op. cit.

Between 58 and 66 percent of residents in converting buildings move rather than stay as renters or owners. However, this percentage will vary, not only from city to city, but from building to building. High rent buildings, for instance, retain higher percentages of their tenants at the time of conversion. The number of tenants who stay will also be higher where regulations prohibit tenant evictions.

One-half of those who move have some difficulty finding new residences, and elderly, non-white, and, to a lesser extent, lower income households are more likely than others to have problems. However, the majority of former residents are satisfied with their postconversion housing, neighborhood, and social environment. Furthermore, they perceive their new dwelling and neighborhood to be equal to, if not better than, their preconversion residences. The probability of locating a comparable neighborhood is not equal for all former residents, however. Lower income and nonwhite former residents' households are significantly more likely to rate their new neighborhood, or some aspect thereof, as inferior to their preconversion neighborhood.

Those who left the building to rent elsewhere typically pay eight percent more for housing each month, while those who buy pay 68 percent more. Once again, these figures vary considerably; for instance, 28 percent of those who rent elsewhere pay 26 percent or more for housing while another one-third pay no more than they did before conversion. For 30 percent, the move itself was a financial burden. Finally, 18-24 percent of the former residents are adversely affected in terms of facing the same or high costs for lower quality housing, or higher costs for the same quality housing.

Financial benefits to condominium or cooperative buyers include tax savings that average $130 a month, while median appreciation is estimated to be $358 per month.

Condominium or cooperative owners generally perceive their buildings to be in good condition, and most are satisfied with the maintenance services received. Nearly one-third, however, say that maintenance costs are higher than expected, although this perception must be interpreted in the context of the ultimate economic benefits they receive through ownership. Finally, although conflict is not very prevalent between renters and owners, one-half of all owners prefer to live in buildings that are entirely owner-occupied.

Chapter X

Government Programs for, and Federal Regulation of Conversions

The public sector influences the volume and character of conversion activity and deals with its impacts through regulatory and programmatic actions.

Regulatory actions include legislative, administrative, and judicial decisions which either specify the manner in which rental property conversions are to be carried out, or promote or prohibit all or some categories of condominium and cooperative conversions.

Programmatic actions involve the government as a participant in the conversion process and include those programs which are specifically designed for this purpose and those which are intended to accomplish broader or different objectives but which are adapted to condominium and cooperative conversions.

A variety of regulatory actions have been undertaken by state and local governments to deal with conversion activity and these are detailed in chapters XI and XII.

In this chapter, a number of Federal government programs which have been, or have the potential to be, used in relation to condominium and cooperative conversions, are briefly discussed. 1/ For example, the Federal government has occasionally insured or subsidized individual condominium unit mortgages and cooperative shares. Also described in this chapter are the regulatory effects of programmatic actions taken by institutions in the Federally established secondary mortgage market. Underwriting standards set by these institutions provide certain protections to buyers of converted units. Finally, selected state and local government programs are discussed. Some of these programs use Federal government assistance and are designed to aid tenant groups in converted buildings; subsidize households which rent or purchase units in converted buildings; and help former residents of converted buildings relocate.

1/ Chapter V discusses the regulatory effects of Federal tax laws and Internal Revenue Service regulations which are excluded from this chapter.

The Department of Housing and Urban Development (HUD), the Department of Agriculture's Farmers Home Administration (FmHA) and the Veterans Administration (VA) each have housing loan, insurance, and guarantee programs that could be used in the conversion of rental properties. However, these programs have played only a minor role in the acquisition and rehabilitation phase of conversion or in individual unit purchases.

Conventional financing is available for purchasers of most converted units. In this connection, the Federally established secondary mortgage market corporations which buy condominium mortgages appear to play a significant role in that segment of the conversion market which is within their program mortgage limits. 2/

Federal condominium or cooperative programs applicable to conversions are most easily analyzed and understood by distinguishing between programs related to financing for the overall conversion project and those related to the financing of individual units. Some programs cover only one type of financing, while some combine both types or work in conjunction with other programs. Following is a discussion of these two types of financing.

Condominium Conversion Financing

One Federal program can be used to finance the conversion of a rental property to a condominium, and several programs can be used to insure or finance individual unit mortgages. The latter programs are intended to give homeownership opportunities to households who otherwise could not afford the cost of buying converted condominiums.

HUD's Section 234(d) program insures private loans made by HUD approved lenders who finance the construction or substantial rehabilitation of multi-family projects of four units or more that result in homeownership of individual units. 3/ This program may be used in the rehabilitation phase of conversion.

2/ Appendix 1 provides a detailed description of Federal programs related to converted rental housing.

3/ Under HUD's definition of substantial rehabilitation, work may vary in degree from gutting and extensive reconstruction to cosmetic improvements, coupled with the cure of a substantial accumulation of deferred maintenance. Cosmetic improvments alone do not qualify for substantial rehabilitation.

HUD insures up to 90 percent of the cost of acquiring, refinancing, and rehabilitating a conversion project sponsored by a profit or nonprofit group. Along with meeting minimum property standards and a variety of other requirements, individual units in the building must be eligible for HUD's Section 234(c) mortgage insurance. 4/ To date, only one conversion project has used Section 234(d) insurance.

In regard to individual unit financing, Section 234(c) authorizes insurance of condominium units in a project that has been finally endorsed by HUD (e.g. Section 207, 221(d)(3), 221(d)(4), 5/ a project that is to be constructed or substantially rehabilitated under 234(d), or a conventionally financed project of 11 units or less. Recent legislation has authorized the use of Section 234(c) insurance in an existing conventionally financed condominium project of 12 or more units which was completed more than a year prior to the application for mortgage insurance. 6/ A regulation change implementing this authority is currently being considered within HUD. Section 234(c) loans are eligible for inclusion in the GNMA Mortgage-Backed Security Program.

Since August 1979, the Veterans Administration has extended its basic home loan guaranty program to existing condominiums, including converted units.

In addition to these insurance and loan guarantee programs, three other Federal programs assist moderate-income households in purchasing units in buildings being converted to condominiums. HUD's

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4/ A condominium unit purchaser may finance a unit through HUD insured or conventional mortgages if cash is not paid.

5/ Section 213 management style corporations are not eligible. Three Section 221(d)(3) insured projects have been converted to condominiums. No data is currently available on the number of Section 221(d)(4) projects involving condominium conversion.

6/ The authority for this change is contained in the Housing and Community Development Amendments of 1978. In its Report No. 95-1161, the House of Representatives states that this authority should be used to facilitate resales of condominium units and cautions the HUD Secretary not to encourage conversions that would result in displacing low- and moderate-income families.

Section 245 Graduated Payment Mortgage (GPM) 7/ program is available to eligible condominium purchasers using a mortgage insured under Section 234(c). A second HUD program provides interest subsidies for condominium mortgages. The Section 235 program is intended to help eligible low- and moderate-income families become homeowners. In 1979, Congress extended coverage under this program to include eligible households who moved from a rental building converted to condominiums or cooperatives. 8/ Finally, under the Government National Mortgage Association's Targeted Tandem Programs, individuals or organizations holding Section 234(d) or Section 234(c) mortgages may be eligible for financing at the FHA rate (plus 2-1/2 points). To qualify for the program, the units must be located in cities eligible for HUD's Urban Development Action Grant program or in designated neighborhood strategy areas under HUD's Community Development Block Grant program.

Cooperative Conversion Financing

Although both HUD and the Farmers Home Administration administer programs that are applicable to cooperative conversions, little use has been made of them. Regulations for cooperative conversion financing under the existing authority of Section 221(d)(3) pursuant to Section 223(f) are currently being considered by HUD.

HUD's Section 213(i) program permits the Department to insure a building's conversion to a cooperative if it is an existing FHA-insured rental project or if it is a conventionally financed rental building constructed before September 23, 1959. The Section 221(d)(3) mortgage insurance program also authorizes HUD to finance the substantial rehabilitation of a rental building converted to a cooperative. Moreover, Section 213(a)(1) and (3) or Section 221(d)(4) also authorize financing of substantial rehabilitation of a rental building converting to a cooperative. Under Section 221(i), an existing Section 221(d)(3) BMIR rental project may convert to a 221(d)(3) BMIR cooperative.

7/ Under a graduated payment mortgage, the mortgagor makes low monthly payments for the first few years of the mortgage term. The payments gradually increase for the next few years until they reach a level where they remain for the balance of the mortgage term.

8/ Prior to the expanded eligibility requirements of Section 235, provided for in the Housing and Community Development Amendments of 1979, the program had been limited to families in existing dwellings who were displaced from an urban renewal area, or displaced as a result of a major disaster; families with five or more children; or families living in public housing.

To date, only two projects have been converted under Section 213(i) and three have been converted with Section 221(d)(3) project mortgage insurance.

The Farmers Home Administration has the authority, under its Section 515 program, to finance the substantial rehabilitation of a rental property where the owner wishes to convert to cooperative ownership. To date, however, no cooperative conversions have been financed under this authority. The Veterans Administration also has the authority to finance cooperative conversions, but has not become involved in this activity.

In addition to mortgage insurance, HUD's housing subsidy programs are potentially adaptable to cooperative conversions. For example, lower income cooperative members may be subsidized for the monthly carrying charges on their units under the Section 8 program. 9/ If at least 20 percent of the units in a cooperative are assisted in this way, the Government National Mortgage Association (GNMA) may purchase the cooperative's blanket mortgage under its Section 8 Tandem program. When GNMA buys the blanket mortgage, the interest rate is reduced and the cooperative members realize a further savings in their monthly carrying charges. Similarly, in cities eligible for Urban Development Action Grants, GNMA's Targeted Tandem program can be used to purchase HUD-insured mortgages of substantially rehabilitated cooperatives. In this way, a below market interest rate is provided for property converted to cooperative housing. However, it should be noted that these programs are not available to a Section 213(i) project because GNMA requires substantial rehabilitation or new construction and the Section 213(i) program does not involve either.

HUD's Section 203(n) program provides insurance for mortgages made to purchase individual shares in cooperatives whose blanket mortgages are insured by HUD. The program insures only the resale of cooperative units by financing a portion of the seller's equity, i.e., the difference between the HUD-appraised value of the unit and the unpaid balance on that portion of the blanket mortgage covering the unit. At present, HUD is considering a rule change which would permit the use of Section 203(n) to insure individual cooperative mortgages in an existing rental property converting to a cooperative under Section 213(i).

Several approaches are currently being considered for using the authority in HUD's Section 223(f) program to convert existing rental properties to cooperative ownership. The rental properties need not be FHA-insured and may not require substantial rehabilitation. One proposal combines this program's authority to refinance

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9/ Section 8 of the National Housing Act provides rental assistance payments to landlords on behalf of households whose incomes are less than or equal to 80 percent of an area's median income.

the entire property with conventional savings and loan financing of individual unit loans. The individual unit mortgages could then be sold on the new secondary mortgage market for cooperative mortgages being developed by the Federal Home Loan Mortgage Corporation.

The interest reduction subsidy available under Section 235 may be used in cooperative conversions, generally under the same terms as those for condominium conversions.

HUD's Loan Management and Property Disposition Programs

HUD's Loan Management Program covers all aspects of loan servicing for HUD-insured (subsidized and unsubsidized) rental properties. In HUD-insured, unsubsidized, multi-family rental properties, a mortgagor may undertake a conversion without obtaining HUD approval if he or she prepays in full the outstanding mortgage. Once prepayment is made, HUD's regulatory agreement is cancelled, and the mortgagor may convert the property. If an existing mortgagor wishes to sell the property to a second party for conversion, and that party wishes to either assume the existing FHA-insured mortgage because of its favorable terms or obtain financing or related assistance from HUD not routinely available, HUD can discourage a conversion by the second party by denying these requests. Although HUD's present policy is not to encourage conversions of unsubsidized, multi-family properties involving mortgage assumptions, requests to HUD concerning mortgage assumption, and similar issues, are treated on a case-by-case basis.

Since HUD currently prohibits the prepayment of mortgages on subsidized, multi-family rental properties, the prohibition, in effect, prevents the conversion of such properties.

HUD's Property Disposition Program deals with the sale of rental properties acquired by HUD following a mortgagor's default on a HUD-insured loan. The Department's principal policy concern in these sales is to prevent the displacement of low- and moderate-income tenants. Therefore, both previously subsidized and unsubsidized HUD-owned properties, which house low- and moderate-income tenants, are sold by HUD only with long-term Section 8 housing assistance commitments attached to them. Thus, conversion of these properties for occupancy by indivduals not eligible for Section 8 assistance is prohibited. If, however, a vast majority of the low- and moderate-income tenants of a HUD-owned property are interested in converting the property to a cooperative, HUD will explore this possibility with them. For example, HUD is managing a demonstration in Boston designed to help lower income tenants of HUD-owned buildings purchase the buildings and convert them to cooperatives.

HUD's Community Development Programs and Housing Demonstrations

Guidelines for the use of HUD's Community Development Block Grant (CDBG) program apply to conversions in two ways. First, CDBG discretionary funds finance grants to local governments for innovative programs related to condominium and cooperative conversions. These programs, some of which are discussed later in this chapter, often involve technical assistance to tenants who wish to buy their buildings for the purpose of conversion. Others offer housing assistance to low-income tenants purchasing condominium units or cooperative shares. Second, the Housing and Community Development Amendments of 1979 require communities receiving Community Development Block Grants to assess the impact of condominium and cooperative conversions on the housing needs of lower income households and to include this assessment in the Housing Assistance Plan submitted with their CDBG application.

In addition, HUD is managing two demonstrations in New York City intended to provide low-income households with homeownership opportunities. The Multi-Family Sweat Equity Homesteading Demonstration uses Section 312 funds to substantially rehabilitate abandoned buildings owned by the city. The buildings are then turned into cooperatives for low-income households. The second demonstration, "Co-Ops for Neighborhoods", combines Section 8 Housing Assistance and tax syndication proceeds with local CDBG funds to finance the rehabilitation of deteriorated buildings and their conversion to cooperatives.

The Secondary Mortgage Market

The primary missions of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) are to create a secondary market for residential mortgages in order to provide an adequate and stable supply of funds for housing. 10/

FHLMC and FNMA purchase mortgages on new and converted condominium units and subsequent resales under each corporation's single-family mortgage program. Both corporations have multi-family mortgage purchase programs which include the authority to acquire FHA-insured blanket cooperative loans. Neither corporation currently has a program to purchase FHA-insured or conventionally financed cooperative units.

10/ The Government National Mortgage Association (GNMA) also conducts secondary mortgage market programs but these are limited to FHA-insured and VA/FmHA guaranteed loans. Since conversion activity involving FHA/VA/FmHA financing has been minimal to date, GNMA programs, likewise, have not been involved with conversions. Specific GNMA programs are discussed in an earlier section in relation to HUD/VA and FmHA housing programs.

ile FHLMC and FNMA differ with respect to their organizational
ructures, constituent lender groups, and procedures, 11/ both
rporations play significant roles in the financing of condominium
nversions, especially during periods of credit restrictions. 12/
LMC and FNMA staff indicate that there is an increasing number of
nversion projects participating in each agency's programs. In
dition, both organizations indicate a rising volume of condominium
it mortgages from such approved projects in their portfolios. 13/
rious market experts have suggested that in today's market, a
rge number of condominium conversion projects are developed to
ecifically meet FHLMC/FNMA underwriting standards, and that a
bstantial number of loans within the FHLMC/FNMA mortgage limits 14/

/ Both FNMA and FHLMC conduct field operations through five
gional offices, with FHLMC also having four underwriting offices.
ile FNMA serves primarily mortgage bankers, FHLMC tends to serve
vings and Loan Associations, although all major categories of lenders
y participate in the programs of both corporations. FHLMC requires
gnificantly less information from the lender and relies primarily
the lender's warranties that its standards have been complied
th. If a lender violates its warranties, FHLMC it maybe required
buy back the mortgages it sold to the corporation. FNMA differs
m FHLMC in that it has more detailed requirements, and FNMA issues
s own project approval after review by its underwriters, appraisers,
d attorneys. FNMA and FHLMC issue Sellers Guides which provide
tailed information on their programs and standards.

/ The desire of lending institutions to maintain liquidity and
tinue loan originations is a major factor underlying such reliance
secondary market programs.

/ The centralized data bases of each organization do not distin-
ish project approvals or mortgage commitments involving condominium
nversions from newly built condominiums.

/ The loan to value limits set by FHLMC and FNMA in recent years
e as follows:

	90% loan to value maximum	95% loan to value maximum
1977	$55,000	$42,000
1978	$75,000	$60,000
1979	$93,750	$75,000

ceptions to these limits apply in Alaska, Guam, and Hawaii where
ximums are 50 percent higher than in the continental U.S.

are purchased by one or the other organization. 15/

Secondary market programs, therefore, can have two significant effects on condominium conversions. First, they help to finance the ultimate sales of units from the converter and resales from the homeowner, thereby enhancing the marketability of converted units. The availability of the secondary market may also help to underpin a whole set of financing arrangements necessary to convert a project from rental status to condominium ownership. Second, since many projects are developed to qualify for secondary market programs, the legal, financial, and physical condition standards required by FHLMC and FNMA have tended to become the industry's minimum standards that affect the quality of conversion projects. In addition, evidence of a project's eligibility to participate in one or both corporations' mortgage programs is viewed as a "seal of approval" concerning the quality of the individual unit mortgages by other long-term investors. In particular, a number of these standards afford a measure of consumer protection to buyers of converted units. 16/ Buyer protection results from two factors. The secondary market agencies try to protect consumers within the limits of their primary missions. Thus, for example, long-term recreational leases and other abuses are prohibited. Moreover, many of the underwriting standards which reflect what FHLMC and FNMA believe to be prudent lending practices also rebound to the benefit of the buyer.

The following discussion reviews a number of FHLMC and FNMA standards which affect condominium consumers.

15/ Stanley H. Taube, "Condominium Conversion Financing" (National Association of Home Builders' Seminar on Converting to Condominiums), fall 1979. Taube indicates that, "A further, and perhaps most important, requirement will be that the development meet the underwriting requirements of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). . . . At the time of this writing and for the foreseeable future, no lender will be interested in making loans that are not readily marketable in the secondary market. It has been the general practice of the lenders to sell condominium loans to FHLMC. However, the loan commitments will normally require that the development meet the standards of both secondary purchasers."

16/ FHLMC and FNMA do not specify any standards for protecting tenants in condominium conversions but do require that the converter follow any state and local laws on this matter.

Legal Requirements. Each corporation has a number of standards concerning the form and type of legal documentation required for a project. 17/ There are specific requirements on insurance coverage, condemnation and loss of units, and in the case of FNMA, the transfer of control from the developer to the homeowner association.

Project Condition FNMA mandates and FHLMC may often require the preparation of an architect's or engineer's report on the condition of structural and major mechanical systems, including their expected useful lives. Both corporations require that the project be completed as planned, especially the common elements and amenities. 18/

Warranties. FHLMC does not set warranty standards, but may require information on any warranties provided. The thrust of FNMA's approach is to provide unit owners and unit mortgagees assurances that the project is in reasonably good physical condition and to bind the developers to the project beyond the sellout period. In this regard, FNMA currently mandates a one year warranty against latent defects in the project.

17/ FNMA reviews all basic project documents, such as the declaration or master deed, bylaws, covenants, conditions and restrictions, articles of incorporation, ground leases, and the anticipated or actual date of document recordation. FNMA requires information on any state agency review reports, as well as information on any existing or pending litigation or government action on the project. An attorney's opinion detailing the project's compliance with state law and FNMA standards is required.

18/ FNMA reviews the plans and specifications of the project and tries to ensure that the project is completed as planned. A certified copy of the proposed or recorded plot plan or plat for the project is required, as are floor plans for the basic unit types. FHLMC also determines whether a project has a sufficient number of units to support the common elements and amenities. FNMA appears to pay particular attention to current conditions of the project both from an underwriting and borrower's standpoint. FNMA requires a registered architect's or engineer's opinion to ensure that any rehabilitation is done according to plans and specifications which meet local codes. Also, the mechanical systems must be adequate to serve the project. The architect or engineer must also indicate the estimated effective lives of major building features (roofs, heating and cooling systems). This information is especially important in judging the adequacy of the project's budget for replacement reserves.

Management. FNMA and FHLMC have substantive requirements on certain kinds of lease or management arrangements involving the developers/declarants or organizations controlled by them. In order to avoid long-term management contracts and other abuses, FNMA requires that a management agreement can be terminable for cause upon 30 days written notice by the homeowners association and such agreement may not exceed one year. FHLMC requires the lender to warrant that any professional management or other contract services to be provided by the developer not exceed three years and that the contract may be terminated without cause or penalty on 90 days or less written notice.

Budget. FNMA and FHLMC review the proposed budget of a condominium to determine its accuracy and completeness. In particular, each organization looks at the budget to determine whether an adequate reserve fund for maintenance, repairs and replacement of common elements is present. 19/ FNMA mandates and FHLMC may require an actual income and expense operating statement for the last two years that the project was operated as a rental. In addition, expenses must be budgeted in regular monthly installments rather than through special assessment. 20/

Presale Requirements. In order to insure that the project is marketable, each agency generally requires that 70 percent of the units be under sales agreements. 21/

Escrow Funds. FNMA requires that buyers' deposits must be placed in a special account segregated from other funds of the seller, or in an escrow account maintained by a third party.

19/ FNMA requires a detailed analysis of project cash flow and needed working capital. It also requires information on items not reflected in the budget, but which are expected to be substantial expenses within the next three years, including items requiring replacement or maintenance after the expiration of a warranty.

20/ FNMA tries to avoid a large lump sum assessment occurring in the future by requiring prepayment by developer or by setting up a joint developer-owner escrow arrangement.

21/ FNMA requires that agreements of sale signed by purchasers must total the higher of either 51-70 percent of the total value of all units in the project or 51-70 percent of the total number of units in the project. The general FNMA rule is 70 percent, unless documentation is presented showing conformity to the practices of other lenders in the area; unless a strong market exists; or unless the developer provides guarantees on common area assessments. FHLMC requires 70 percent of the units in a project to be sold to bona fide purchasers who have closed or who are legally obligated to close. FHLMC also will waive this requirement to 51 percent if adequate documentation of reasons is presented by a seller.

Owner-Occupant/Investor-Purchasers. Both corporations only purchase mortgages on units occupied as primary residences by owner-occupants. FHLMC requires that at least 80 percent of the units in a project must be sold to individuals for use as their primary year-round residences. FNMA requires that a "substantial proportion" of the project purchasers be owner-occupants.

Condominium Resales. Since 1978, FNMA and FHLMC have also had special standards for purchasing mortgages in existing condominiums, including converted buildings. These programs were developed to help consumers who had difficulty in obtaining financing. Subsequent buyers found that many lenders were reluctant to provide mortgages because of the burden of reviewing all the project's legal, financial and physical documentation for only a spot loan. Most of the substantive standards discussed above also apply to FNMA/FHLMC programs on condominium resales. However, FNMA standards are generally more detailed than those of FHLMC. [22]

Cooperative Programs. FHLMC has authority, under its multi-family mortgage purchase programs, to purchase cooperative project blanket mortgages. A few cooperative blanket mortgages have been purchased, but it is unclear whether any have been conversions. The Federal Home Loan Bank Board (FHLBB) has recently authorized federal savings and loan associations to make loans for cooperative shares for up to 95 percent of the value of the cooperative unit. FHLMC has recently been given authority by Congress to develop a secondary market program for cooperatives, however, the program development process will not begin until late 1980.

FNMA also has authority to purchase cooperative project mortgages under its multi-family progrm. A few HUD-insured cooperative mortgages have been purchased for the FNMA portfolio. In addition, FNMA has recently received authorization from HUD to purchase conventionally financed cooperative project loans, but the program has not yet been implemented. FNMA also has authority to purchase HUD-insured Section 203(n) loans but, to date, has not done so.

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[22] FHLMC and FNMA require a project to have been under the control of a homeowners' association for a period of time and prohibit future phasing or add-ons. In addition, the project must comply with state laws, certain insurance requirements, and other legal standards. FNMA also has a number of additional requirements, such as that the project be demonstrably well-managed, operated, and maintained. In addition, FNMA may require that the budget reflect adequate reserves for replacement of common area components. FNMA and FHLMC each require that 90 percent of an approved project must be sold to bona fide purchasers; the remaining 10 percent may be retained by the developer. FNMA requires that these projects must be substantially owner-occupied, while FHLMC is more specific -- requiring that 60 percent of a project's units be the primary residences of their owners.

The Securities and Exchange Commission.

The Securities and Exchange Commission (SEC) has published several interpretative releases and letters concerning when cooperative and condominium offerings are to be considered securities subject to registration requirements. SEC jurisdiction and requirements may apply to cooperative or condominium conversion offerings which involve rental pools or time-sharing arrangements. Those cooperative and condominium offerings which would generally be deemed to be securities are those which are usually sold with an emphasis on the investment benefits to be derived from the efforts of a manager or promoter. However, few, if any, cooperative or condominium conversion projects have been registered with the SEC. The U.S. Supreme Court has held that sales of stock in cooperative units do not constitute the sale of securities within the meaning of the Securities Act of 1933, and thus the SEC has no jurisdiction over cooperative units sold solely for residential use by a buyer. 23/

Innovative Local and State Programs Related to Conversion

This section describes some local and state government programs developed as reponses to conversion (See Appendix 1 for additional details). A number of these programs have received financial support from HUD through its State Technical Grants and Innovative Grants programs. The sources of state and local funds are bond issuance and general revenues.

The various programs are designed to accomplish one or more of the following objectives: (1) to provide financial and technical assistance to tenant groups converting their buildings to condominiums or cooperatives; (2) to subsidize low- to moderate-income persons and/or current tenants in the rental or purchase of converted units; and (3) to assist households who are relocating from converted buildings.

Assistance to Tenant Groups. Some state and local governments provide loan insurance, loans, education, or direct technical assistance to organized tenant groups which desire to purchase and convert their buildings to cooperatives or condominiums.

For example, the State of California, in an effort to mitigate the effects of displacement caused by conversions, has three programs to assist low- and moderate-income households in purchasing converted units. The first is the homeownership coinvestment concept which includes provisions for assisting low- and moderate-income households in purchasing homes through public or private co-investment and deferring the repayment or servicing of co-investment funds. 24/ The Community Development Block Grants, as well as well as contributions from State Grants Programs, the Innovative Grants Program, and from the private sector, are among the sources of funding for the

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23/ United Housing Foundation, Inc. v. Forman, 421 U.S. 837, 95 S.Ct. 2051 (1975).

24/ Repayment is required when the home is sold, refinanced, or the household is able to assume full responsibility for payments.

program. 25/ Under the Homeownership Loan Program, the California Department of Housing and the California Housing Finance Agency are authorized to assist low- and moderate-income households in obtaining loans for the purchase of condominium and cooperative units. The Agency also administers a program which insures loans to finance limited equity cooperatives and permits priority processing of applications of multi-family developments proposed for conversion to limited equity cooperatives.

Officials in Santa Barbara, California have proposed a similar program to establish limited equity cooperatives for low-income tenants in revitalizing neighborhoods. The program will provide down payment assistance covering from 15 to 35 percent of the amount needed for the entire project. The down payment fund is expected to be replenished when loans are either repaid with mortgage financing provided by the California Housing Finance Agency or through the restructuring of payments made by members for individual shares.

To help tenant associations determine the feasibility of their cooperative conversion proposals, local officials in Washington, D.C. are using an Innovative Grant to finance a program offering professional technical assistance. Tenant groups will be able to hire consultants, engineers, and architects to assist them in planning a cooperative conversion.

The Denver city government is also encouraging the formation of housing cooperatives to minimize displacement caused by revitalization. Programs to provide public education as well as technical and financial assistance are being planned in that city.

Subsidies for condominium or cooperative purchase or rental. State and local programs also provide loans or grants to assist individuals to purchase converted units. Other programs subsidize rents so that eligible tenant households can remain in converted buildings. Such programs are targeted to specific groups -- such as the elderly or low- to moderate-income persons -- likely to be adversely affected by conversion.

The Government of King County, Washington (which includes Seattle) plans to prevent displacement of elderly occupants of converting buildings by purchasing units in the buildings. HUD Innovative Grant funds and conventional financing will be used to buy the units, and Section 8 subsidies will help to reduce rents for elderly persons who are eligible for the program.

25/ Program development was financed with a $200,000 grant from the state grants program. The state expects to receive $700,000 from HUD's Innovative Grant program and the local government contribution is expected to be $3 to $11 million.

The City of Brookline, Massachusetts plans to use Innovative Grant funds to provide equity assistance to low-income households for the purchase of converted units. The amount of assistance will be determined on a sliding scale based on what is required to bring a household's monthly payments in line with the 25 percent-of-income standard. The assistance will be secured by a lien on the unit which will be recovered upon resale. The Massachusetts Home Mortgage Finance Agency, which provides financing to low-income households at interest rates of 1-1/2 to 2 percent below conventional market rates, is expected to provide the balance of the financing.

With the help of Innovative Grant funds, local officials in Baltimore, Maryland intend to establish a nonprofit real estate corporation which will provide homeownership and cooperative housing opportunites to low- and moderate-income households. The real estate corporation will identify, acquire, repair, and sell residential properties. Its activities will be coordinated with neighborhood organizations and city agencies to ensure that the city's homeownership programs and Section 8 subsidies are made available for participants in the program.

The California Department of Housing and Community Development and the California Housing Finance Agency have been granted authority to assist low- and moderate-income households to purchase converted condominium and coopertive units. Loan amounts may not exceed 45 percent of the unit's purchase price, and the purchaser must make a down payment of at least three percent.

Other localities have combined purchase or rent subsidies with other types of assistance offered to groups which are converting their buildings to multiple ownership. For example, Arlington County, Virginia (a Washington, D.C. suburb) will use Community Development Block Grant fund to assist tenants in converting their buildings to cooperatives. Tenant associations will be eligible for technical assistance funds of up to $50,000 ($10,000 as a grant and $40,000 as a loan). The $40,000 loan must be repaid to the county when final settlement is made on the permanent purchase loan, although the county can agree to forgive or defer repayment of the loan. Section 8 subsidies are expected to be available for low-income cooperative members.

Officials in Montgomery County, Maryland (another suburb of Washington, D.C.) plan a multi-faceted approach to lessen the adverse effects of of conversion on low-income tenants. The county will rely on the cooperation and assistance of the State of Maryland and the Federal government. The major features of the strategy involve the use of (1) revenues from a proposed 4 percent transfer tax on the initial sale of a converted condominium unit to provide rental and down payment assistance to low-income residents of the County; and (2) Federal funds to purchase converted units which will be reserved for sale or rental to low-income households living in converting buildings. Developers who set aside 15 percent of the units in a converted building for the second purpose will be exempt from the proposed 4 percent transfer tax. HUD Section 235 mortgage insurance and interest subsidies will be provided to eligible low-income households purchasing converted units.

Between August 1978 and July 1979, Minneapolis, Minnesota used revenue bond financing to make eight percent mortgage loans to purchase converted condominium units and cooperative shares. Over 400 households with incomes below $22,000 purchased condominiums under this program, and a smaller number of households purchased cooperative shares. In conjunction with the mortgage loan program, an apartment homeownerhip team encouraged conversions from rental housing to condominiumes or cooperatives by providing technical assistance to the converter.

Assistance to households moving due to conversion. A few localities have developed programs which aid specific groups of renters who must move because of conversions. For instance, Montgomery County, Maryland has instituted a Condominium Conversion Emergency Aid fund. The fund provides relocation and down payment assistance to elderly and handicapped renters who are adversely affected by conversions. Revenue from an existing one percent transfer tax on all real estate and from the upward reassessment of converted buildings is used to finance this special fund.

* * *

At present, the Federal government has several housing programs which may be used to insure or subsidize the conversion of a rental property or to purchase individual condominium units or cooperative shares. Low-income cooperative members are eligible for rent subsidies under HUD's Section 8 program, and HUD's Community Development Block Grant funds are provided to local governments for innovative programs related to conversion. Some state and local governments also have responded to condominium and cooperative conversions by developing programs to assist tenants in converting their buildings; to subsidize the purchase or rental of converted units by tenants; or to assist low- to moderate-income households to relocate following conversion. The combined effect of these programmatic activities cannot yet be determined because of the small scale and limited use of the Federal programs and because of the recent adoption of state and local programs.

From the regulatory perspective, FNMA's and FHLMC's underwriting standards for the purchase of condominium mortgages provide some protection to buyers of converted units. Apart from current legislative proposals to halt or regulate condominum and cooperative conversions at the national level (none of which has been enacted), the secondary mortgage market programmatic activity is the primary way in which the Federal government regulates rental housing conversions. 26/ State and local governments, on the other hand, have initiated extensive regulatory actions of their own. Their efforts to regulate and control conversion activity are detailed in chapters XI and XII, which follow.

26/ The following legislation has been introduced in either the Senate or the House of Representatives: H.R.975, the "Condominium Act of 1975" is a consumer protection bill which includes national minimum standards to govern condominium conversions; S.612 "Residential Unit Lease Act of 1979," and its House companion bill, H.R. 2792, "Condominium Act of 1979," encourage condominium ownership and the provision of disclosure statements and other types of consumer protection to purchasers of converted units; and H.R. 5175, "Condominium-Cooperative Conversion Moratorium Act of 1979: For Tenant Protection and for the Preservation of Rental Housing," would impose a three-year nationwide moratorium on conversions. In addition, the Senate reported out its version of the Housing and Community Development Amendments of 1980 on May 15, 1980. Title V of this bill, "Condominium and Cooperative Conversion Protection and Abuse Relief Act of 1980" encourages the use of the condominium and cooperative forms of ownership as a way of meeting the shortage of adequate and affordable multi-family housing throughout the country. In addition, the act aims at correcting and preventing the abusive use of long-term recreational and similar leases.

Chapter XI
State Regulation of Conversions

Almost half of the states have passed statutes that provide various types of protection for tenants and buyers in converted condominiums or cooperatives. 1/ The most frequent protections for tenants are requirements for notice of conversion or lease extensions, and rights to purchase units in a converted building. A number of states have enacted additional protections -- usually in the form of full disclosure of the legal, financial, and physical condition of the project -- for all condominium purchasers (newly built and converted) and, in several instances, special protections for purchasers of converted condominiums. In addition, a few states have passed measures to assure a given level of rental stock, to preserve low- and moderate-income housing, or to provide special considerations for certain classes of tenants, such as the elderly, handicapped, or families with children.

The first section of this chapter briefly traces the origins of state conversion regulation. Then, the various state regulations that protect tenants and buyers, the rental supply, and low- and moderate-income housing are discussed. Finally, the legality of government regulations affecting conversion is considered.

The Origin and Evolution of State Conversion Regulation

The enactment of condominium statutes was begun in the United States in the early 1960s. In less than a single decade, such statutes were passed by every state in the union and the District of Columbia. Cooperatives, on the other hand, are not a creature of statute but are based upon a combination of corporate ownership of land and long-term residential leases given exclusively to the corporation's stockholders. The participants in the latter type of common ownership are generally referred to as "cooperators" or "proprietary lessees." The cooperative form of ownership is confined to a few major cities -- among them New York, Chicago, Miami, San Francisco, and the District of Columbia -- but by far, the vast majority of cooperative housing in the United States is located in New York City (95 percent). While some cooperatives originated as new construction in the post-World War II era, most such ventures stemmed from conver-

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1/ Most state regulation concerns conversion to condominium rather than cooperative ownership.

sion of existing rental structures to cooperative housing status. Condominiums, on the other hand, have taken the form of new construction in the past two decades, largely because of the relatively recent passage of enabling legislation and the concentration of new condominium developments in vacation and retirement states. To gain an overview of the conversion field, as well as a grasp of existing state legislation in this field, it is useful to look at the legal, economic, and social factors that gave rise to a steady stream of cooperative conversions in New York State from and after the conclusion of the Second World War.

Following the war, some apartment owners in New York City found it advantageous to market their rent-controlled properties to tenants and outsiders as cooperatives. The aggregate yields from such sales were typically much higher than what could be realized if the buildings were sold to a single investor or successor landlord. The rapid increase in the value of cooperative apartments (as measured by unit resale prices), attractive financing, favorable converter capital gains treatment, the absence of any competing condominium concept, and the absolute control the cooperators have over the person(s) to whom an apartment could be sold all combined to make cooperative conversions an ongoing fact of life in New York City.

Faced with the potential loss of many of the city's desirable apartments through cooperative conversions, authorities charged with administration of the rent control program issued regulations to govern the process. They early established the rule of thumb that the rent-controlled status of apartments of nonpurchasing tenants could not be terminated unless the sponsor of the conversion induced 35 percent of the tenants in occupancy to purchase their apartments within six months after the offering plan was issued. This figure was viewed, not as a tenant referendum, but as a fairly good indication that the offering plan was sound. If the sponsor was willing to make cooperative sales over a long period of time, or failed in the attempt to obtain 35 percent sales to tenants in occupancy, then a "noneviction plan" could be issued; i.e., one that did not seek to terminate the rent-controlled status of tenants who decided not to purchase. Such an offering plan did not require any certain number of sales to occupying tenants before a sponsor could declare the plan effective. Between 1945 and 1965, dozens of high-rise apartment buildings were converted to cooperative status in New York City each year. The passage of a condominium statute in New York State did not alter this trend because of the advantages that the cooperative apartment conversion technique afforded the sponsor, in terms of income tax factors, financing, and marketing.

By 1960, the New York Attorney General's Office had assumed jurisdiction of cooperative apartment conversions, under statutory amendments to the General Business Law, which resembled state laws governing the offering of securities. This jurisdiction, in turn, was rapidly expanded to cover condominiums and homeowner associations. Gradually, an elaborate set of disclosure requirements evolved that included both a filing with the Attorney General's Office and publication of an "Offering Plan" for prospective unit purchasers (whether tenants in occupancy or third parties). Since 1960, conversion regulation has undergone extensive analysis and refinement via legislative, judicial, and administrative pronouncements. Consequently, the disclosure requirements and tenant protection measures currently found in New York State are generally recognized as the most comprehensive in the Nation.

With the possible exceptions of California, Florida, and the District of Columbia, few cooperative conversions of any magnitude have occurred outside of New York State. In the early years of the condominium boom, developers and state legislatures focused almost exclusively upon the use of this new-found concept in new construction. By the 1970's individual state legislatures began to enact "second generation" condominium statutes, which were largely designed to solve technical problems encountered in constructing new condominium units. However, the advent of the Virginia second generation statute and its model act counterpart (the Uniform Condominium Act) have started state governments down the path toward greater regulation and consumer protection measures. Part of that effort has focused upon condominium conversions. Nevertheless, conversion measures still constitute only a minor aspect of most state condominium statutes.

When the condominium conversion trend appeared more or less simultaneously in major population centers within the past 5 years, public officials and affected tenants were taken by surprise. Unlike the New York situation there had been no gradual evolution of the conversion process and regulation dating back over 35 years. Moreover, few of the cities experiencing the wave of conversions had rent control of any kind. Finally, most state statutes had few if any provisions relevant to conversion issues. As a result, there emerged a broad-based demand on the municipal level for regulation or prohibition of residential apartment conversions to condominium status. Though more extensive state regulation may occur as more experience is gained with problems associated with conversions, for the foreseeable future, the legislative response will probably take the form of local ordinances. When these problems do attract attention on a statewide basis, the New York experience 2/ and the Uniform Condominium Act provisions 3/ will probably serve as models.

2/ Appendix 2 contains the citations to relevant state statutes. Detailed information on the highly regulated conversion process in New York state can be found in the Report of the Temporary Commission on Rental Housing submitted to the Governor in the spring 1980.

3/ The Uniform Condominium Act is discussed below.

The next sections categorize state legislation affecting conversions as follows: tenant protections; buyer protections; rental stock protection; preservation of low- and moderate-income housing; and the protecton of elderly and handicapped tenants. In addition, provisions of the Uniform Condominium Act relating to conversions are analyzed.

Protection Afforded Existing Tenants

Approximately one-half of the states have enacted statutes that afford varying types of protection to tenants of residential buildings that are about to undergo conversion to condominium status. The most significant protection pertains to the notification of intent to convert, with provisions for minimum tenancy. Right of first purchase is also frequent, but requiring relocation assistance is rare. Only three states, New York, Connecticut, and Minnesota, provide special protections for one or more of the following types of tenants: elderly persons; handicapped persons; or families with minor children.

Tenant protection statutes can be separated into the following categories: notification of a proposed conversion and occupancy/eviction requirements; right to quiet enjoyment; minimum tenant-purchase or tenant approval; right of first refusal; relocation plans and assistance; and miscellaneous tenant protections.

The nature and extent of each of these tenant protection measures are discussed below.

Notification of proposed conversion, and occupancy eviction requirements procedures. Most of the states which require notification of tenants specify a minimum period of tenancy following the notice of intent to convert. The tenant may maintain occupancy throughout this period or to the end of the existing lease, whichever is longer. Frequently, the tenant must notify the developer in writing of his or her intention to take advantage of the statutory minimum period beyond the expiration of an existing lease. The length of notice varies from state to state. The shortest is 60 days, the longest, 270 days, and the most common is 120 days. 4/

4/ Breakdowns by state are as follows: (1) 60 days -- Tennessee and New Jersey; (2) 90 days -- Colorado, New Hampshire, Oregon, and Virginia; (3) 120 days -- Arizona, California, Illinois (before filing of the condominium declaration), Michigan, Ohio, West Virginia, and Wisconsin; (4) 180 days -- Connecticut and Maryland and (5) 270 days -- Florida.

State Statutes Affording Protection to Tenants in Condominium and Cooperative Conversions'

	Notice of Intent to Convert/Minimum Occupancy (In Days)	Tenant Right to First Refusal (In Days)	Right to Quiet Enjoyment	Relocation Assistance	Other
Alabama					
Alaska					
Arkansas					
Arizona	170	30	X		
California	120	60		X	X[4]
Colorado	90			X	
Connecticut	180	90		X	X[5]
Delaware					
Florida	180 - 270	90			
Georgia					
Hawaii					
Idaho					
Illinois	120	120	X		
Indiana					
Iowa					
Kansas					
Kentucky					
Louisiana					
Maine					
Maryland	180				X[5]
Massachusetts					
Michigan	120				
Minnesota *	120	60			X[7]
Mississippi			X		
Missouri					
Montana					
Nebraska					
Nevada					
New Hampshire	90	60			
New Jersey	60[1]	90	X	X	
New Mexico					
New York	*[2]	*[2]	X		X[6]
North Carolina					
North Dakota					
Ohio	120	90			
Oklahoma					
Oregon	90[3]	30	X		
Pennsylvania					
Rhode Island					
South Carolina					
South Dakota					
Tennessee	90			X	
Texas					
Utah					
Vermont					
Virginia	90	60			
Washington					
West Virginia *	125	95			
Wisconsin	120	60			X[7]
Wyoming					
Uniform Condominium Act	180	60			X[7]

' Most state protections apply only to condominiums.

[1] Notice precedes 3-year notice of intent to institute eviction proceedings.

[2] Notice varies for rent control and rent stabilization housing.

[3] Does not constitute or include notice to terminate tenancy.

[4] 10-day notice of optional public hearing.

[5] Prohibits retaliatory eviction for failure to purchase.

[6] Prohibits stockpiling empty apartments, tenant harassment, etc.

[7] Right to cancel lease.

A few states have more rigorous tenant protections which require separate notices of intent to convert and notice of intent to evict. 5/ These statutes often prohibit evictions of tenants for long periods of time, including extended stays of eviction proceedings in the case of hardship. 6/ A few states provide extended notification periods based upon the tenant's age, physical disability, or family status, 7/ or the tenant's length of residence in the building, 8/ or the presence of a local housing emergency. 9/ Some states have shorter than usual notification periods but include other provisions,

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5/ New Jersey, in particular, requires that tenants receive 60 days notice of intent to convert before the owner may serve a three-year notice of intent to institute eviction proceedings. Oregon's statute specifically states that the 90-day notice of intent to convert shall not constitute or include a notice of termination. Both states also require that the notice include the plan of conversion and a description of the tenant's rights.

6/ New Jersey law provides for a court ordered stay of evictions after the minimum 3-year period. Connecticut's statute states that if a tenant cannot secure suitable premises in a reasonably comparable neighborhood after searching with due "diligence," the court may grant a stay of the eviction for up to 6 months. The court may further grant an additional 6 months based on the age of the applicant, the size of the applicant's family, the length of tenancy, and the availability of suitable alternative housing.

7/ See the discussion of Connecticut, Minnesota, and New York statutes in a following section on protection of elderly and handicapped individuals, and families with children.

8/ In Florida, a tenant who has been a resident of the building for 6 months or more prior to the notice of intent to convert may extend his or her lease for 270 days. A tenant who has been a resident for less than 6 months prior to the notice of intent to convert may extend his or her lease for 180 days. In both cases, the tenant must notify the developer of his election to extend the lease within 45 days of the notice of intent to convert. Tenants whose leases expire within 45 days may choose to remain (with written notice) for that 45-day period in order to decide whether or not to extend their rental agreement for the 180- or 270-day period.

9/ Florida law provides that a county may further extend the tenant's right to stay for an additional 90 days (a total of 360 days) for tenants in residence for 6 months or more and 270 days for tenants in residence less than 6 months if a county finds that there is a 3 percent or less vacancy rate. A municipality in the county may vote not to have the 90-day extension apply within its boundaries.

such as the right to terminate and be compensated for moving expenses. 10/ Several states authorize considerably less stringent notice of termination provisions for leases which were entered into after public announcement of the plan to convert the premises. 11/

Right to quiet enjoyment. State statutes contain little treatment of a tenant's right to quiet enjoyment of the premises during the conversion process. Arizona law prohibits construction or improvement of the unit without the tenant's express permission, stipulating that peaceful enjoyment of the premises, including common areas, is not to be interrupted by unreasonable noise or construction activity. Minnesota also prohibits repairs or remodeling during the notice period unless "reasonable precautions" are taken to ensure tenant safety and security.

A few states limit access to occupied units for the purpose of showing them to prospective purchasers. Illinois, for example, limits such showings to a reasonable number of times, at appropriate hours and then only during the last 90 days of an expiring tenancy. The lew Jersey statute provides that, during the first 90 days after otice of intent to convert, the unit may not be shown to a third arty unless the tenant has, in writing, waived his or her right to urchase. New York has established severe penalties for landlords ho keep apartments empty or harass tenants in order to speed up the onversion process. In addition, certain measures require that fter the conversion is completed, the nonpurchasing tenants must be erviced by the same managing agent who services the apartment purhasers and that the pre-conversion level of services must be maintained. Oregon mandates that a tenant's dwelling unit may not be hown to a prospective purchaser without the tenant's permission nless tenancy has been terminated.

0/ See the discussion of Colorado, Florida, and Tennessee in the ollowing section on moving expenses.

/ Connecticut allows termination of such leases on 30 days notice. orida allows termination on 60 days' notice if the landlord's right this regard is conspicuously disclosed in the lease. New Jersey ovides that a statement of intention to convert must be provided for nancies begun after the condominium master deed has been filed. If is notice is given, these tenancies can be terminated on 60 days tice; if not, the tenants have a right to the regular 3-year tice. In New York, 60-day notice of termination provisions may be serted in new or renewal leases of "rent stabilized" apartments, om and after the date that the first draft of the conversion offering an is distributed to tenants and filed with the appropriate governntal agencies.

Miminum tenant purchase or tenant approval. New York State has the most significant rules regarding this issue. By a combination of statute and administrative regulation, the state mandates that conversion plans in New York City can only proceed if 35 percent of tenants in occupancy sign subscription agreements within a relatively brief period after the plan is accepted for filing by the attorney general. Special state legislation for the counties of Nassau, Westchester and Rockland authorizes local governments to mandate a minimum 35 percent sale to tenants for an eviction plan, as well as a mandatory 15 percent sale to tenants for noneviction plans, if local governments deem it necessary.

The right of first refusal. A number of states require the converter to give tenants in occupancy an unqualified, exclusive option to purchase their units. This option, often called a "right of first - refusal", must be exercised within a specific period of time, usually linked with the notice of intent to convert or notice to vacate. Right-to-purchase periods range from 30 to 120 days in various states. 12/

Some states provided for the possibility of extending notice of intent to convert/right to occupancy depending upon the timing of a developer's offer to the tenant of the right to first refusal, 13/ or disclosure of certain mandated information to the tenant. 14/

Minnesota is the only state which prohibits discrimination based on the age of the lease holder or any resident when offering the right of first refusal. Florida is the only state to limit the right of first refusal to tenants who were in occupancy at least six months prior to the notice of intent to convert.

12/ In Oregon, it is 30 days after notice of intent to convert; in Wisconsin and Virginia, it is 60 days after notice to vacate and in California it is at least 60 days after issuance of the Final Subdivision Public Report; in Connecticut and New Jersey, it is 90 days from notice of intent to convert, and in Ohio, 90 days from notice to vacate. Arizona provides a 30 day period which can be given during or after the notice of intent period. In Florida, the right to first purchase lasts 45 days from the receipt of all mandated purchaser information on the housing market, financing, and tax system. New York statute and regulations require each tenant in occupancy be given a 90 day exclusive right to purchase.

13/ Arizona provides a minimum 90-day right to occupy from the officer of the right of first refusal.

14/ Florida stipulates that if a tenant informational package is not provided within 90 days of the notice of intent to convert, the notice period is extended one day for each day the report is late, unless the tenant disclaims this extension in writing.

Relocation Plans and Assistance. A few states require developers to pay moving expenses or establish a relocation assistance program. Three states permit the developer to terminate or shorten the notice period by paying moving expenses or other agreed upon consideration. 15/

Connecticut mandates that low income tenants must receive moving and relocation expenses equal to one month's rent, or up to $500 (as determined by local government). 16/ Connecticut also requires a converter to provide nonpurchasing tenants with relocation assistance which includes information on the availability of alternative housing, financing programs, and Federal, state, and municipal housing assistance.

The State of New Jersey has also legislated fairly extensively in this area. It has developed an integrated set of tenant protections and assistance involving moving expenses, relocation assistance, and long-term eviction stays. Specifically, the statute provides that preconversion tenants who are evicted or leave because of the conversion shall receive moving expense compensation equal to one month's rent. The statute also provides for relocation services: tenants in occupancy prior to the recording of the master deed (who received the three-year notice) have a right for 18 months to demand that the landlord offer them a "reasonable opportunity" to examine and rent "comparable housing." 17/

15/ Colorado state law allows a developer, with the tenant's consent, to terminate the tenancy in less than the 90-day minimum, if the developer pays all moving expenses or other agreed-upon considerations. A Tennessee statute mandates that if the owner converts without giving tenants two months' actual notice, the occupants may choose to vacate immediately upon receiving a belated notice, and the owner must than pay all reasonable moving expenses. However, if a tenant is in a position to make this choice and does not vacate the premises immediately, the owner is not obligated to pay moving expenses. Florida permits developers to offer tenants entitled to 270 days notice the option of accepting 120 days notice plus one month's rent for moving expenses.

16/ Connecticut limits moving and relocation benefits to households with incomes of less than 175 percent of the Federal Community Services Administration poverty guidelines for nonfarm recipients.

7/ The statute specifically defines "reasonable opportunity" and "comparable housing" and stipulates that a landlord must prove that hese requirements were met before eviction proceedings can begin. f a landlord cannot prove this, the court may authorize up to five ne-year stays of eviction (with reasonable rent increases), until t is satisfied the tenant has been offered the statutory benefits. f, after at least one such stay has been authorized, the owner ives the tenant "hardship relocation assistance" equal to a waiverr

Miscellaneous tenant protections. Arizona, Maryland, and Minnesota all permit tenants to cancel an existing lease within 30 days of the notice of intent to convert. Connecticut's legislation prohibits retaliation against tenants by an owner wishing to convert.

The statute provides that, where a written lease exists, there can be no retaliatory eviction because a tenant refuses to purchase an apartment. The various New York statutes governing conversion to condominium or cooperative status contain several provisions of a similar nature. Among other things, these statutes prohibit the stockpiling of empty apartments; harassment of tenants to induce them to purchase or move; and reduction of services during or following the conversion process. Finally, these measures mandate that both tenants and purchasers must be serviced, on a nondiscriminatory basis, by the same managing agent, once the conversion is declared effective and title is transferred.

Protections Afforded Buyers

Almost half of the states have revised their statutes to include more protections for all condominium purchasers. These protections apply to both newly constructed condominiums and conversions, although several states and the Uniform Condominium Act require additional protections in the case of conversions. The most common buyer protection provisions concern to the preparation and publication of a building, property, or engineer's report. This report is often a key element in a full disclosure scheme of consumer protection and usually includes information on the present condition of the property, the useful life of the major structural and mechanical components, the estimated costs of major repairs and replacement, and the project budget and past operating expenses of the building. A few states specify that the developer must provide warranties, post bonds, or establish escrow funds to guarantee the quality or completion of common areas and individual units. Some states give purchasers the right to rescind or cancel the sales contract within a set period of time, usually 10 to 15 days after execution on the contract or receipt of all full disclosure documents.

Buyer protection statutes can be separated into seven distinct categories: building codes; preparation and publication of building, property or engineer's report; full disclosure requirements; warranties; escrow funds to ensure completion or renovation of common elements; purchaser's right to cancel or rescind contracts of purchase; and escrow of purchaser deposits.

The nature and extent of these measures are discussed in greater detail below.

Building codes. There is little regulation of such codes at the state level. Most existing statutes mandate disclosure of the status of compliance with local building codes in the public offering statement or registration. 18/

Preparation and publication of building, property, or engineer's report. Most of the state statutes that require disclosure incorporate these items in a public report that must be given to tenants and other prospective unit buyers. Those states which specifically require that the property report be filed with the relevant state agency prior to the disclosure to the public are reviewed in this section. 19/

A property report requires a statement by the converter as to the present condition of all structural and major mechanical components. Some states further stipulate that the statement be substantiated by an architect or engineer's report, 20/ or that construction details and necessary repairs of components be disclosed. 21/ Florida, for example, requires a property report detailing the date and type of construction; the prior use of the building; and the condition of the roof and structural and mechanical elements, substantiated by an architect or engineer's report. It also requires a substantiated report on the extent and treatment of termite infestation.

Some states also require a statement in the property report which discloses the estimated remaining useful life of the structural and major mechanical components. A few states also require the converter to estimate the cost of replacing structural and major mechanical components. 22/

18/ Connecticut, Florida, Hawaii, New Hampshire, Louisiana, Michigan, Minnesota, New Jersey, New York, Ohio, Oregon, Virginia, and West Virginia all require such disclosure. New York regulations also require that building, fire, or other code violations of record be removed before the conversion process is completed.

19/ Connecticut and Louisiana require its inclusion in the Public Offering Statement; Florida and New York in the Prospectus; New Jersey and Virginia, in the Application for Registration; and Oregon, in the Notice of Intention. Hawaii and California require property reports, separate and apart from the disclosure documents.

20/ Florida, Hawaii, Louisiana, New Jersey, and New York require independent verification by an architect or engineer.

21/ Connecticut, Florida, New York, Oregon, and Virginia are among the states which specify details of construction and necessary repairs.

22/ Connecticut, Hawaii, Louisiana, Oregon, and Virginia require estimates of useful life; Connecticut and Virginia include estimated costs of repairs. New York prohibits the inclusion of such cost estimates on the theory that inflation, differences among contractors, differences in the scope of the work and available warranties, make such cost projections unreliable and counter-productive.

State Statutes Affording Protection to Buyers in Condominium and Cooperative Conversions[1]

	Reports and Disclosures						Warranties	Escrow		Right to Cancel		Other		
	Building Codes	Property Condition	Useful Life	Estimated Repairs	Budget	Legal Documents	Units/Common Areas	Work Completion	Deposits	Unconditional	Limited	Notice of Tenant Rights	Schedule of Completion	Other
Alabama														
Alaska														
Arkansas														
Arizona														
California		X				X								X
Colorado						X								
Connecticut	X	X	X	X	X	X	X	X		X		X		X
Delaware														
Florida		X			X	X	X	X		X				X
Georgia					X	X			X		X[3]			
Hawaii	X	X			X	X		X	X		X[4]			X
Idaho														
Illinois					X	X			X	X		X		
Indiana														
Iowa														
Kansas														
Kentucky														
Louisiana	X	X	X		X	X				X				
Maine					X	X				X				
Maryland		X			X	X		X		X				
Massachusetts														
Michigan		X			X	X		X	X	X				X
Minnesota*	X	X	X[9]	X[10]	X	X	X		X	X			X	
Mississippi														
Missouri														
Montana								X			X[3]			
Nebraska														
Nevada														
New Hampshire		X	X	X	X	X			X	X			X	
New Jersey	X	X			X	X			X	X		X	X	X
New Mexico														
New York	X	X			X	X				X		X		
North Carolina														
North Dakota														
Ohio	X	X			X	X	X		X	X				
Oklahoma														
Oregon		X	X	X	X	X	X			X			X	
Pennsylvania														
Rhode Island														
South Carolina														
South Dakota					X				X					
Tennessee														
Texas														
Utah														
Vermont														
Virginia	X	X	X	X	X	X	X	X	X	X				
Washington														
West Virginia*	X	X	X[9]	X[10]	X	X	X		X		X[4]		X	
Wisconsin						X				X				
Wyoming														
Uniform Condominium Act	X	X	X[9]	X[10]	X	X	X		X		X[4]		X	

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[1] Most state protections apply only to condominiums.

* Includes Condominium Act with amendments.

[3] Buyers may cancel if misled by fraud or misrepresentation.

[4] Buyers may cancel if Public Offering Statement not delivered.

[5] Property report includes utilities, zoning, health and safety, etc.

[6] Design standards.

[7] Must disclose prior use of building.

[8] Fire insurance.

[9] Useful life or indication that no representations are made on major systems.

[10] List of material building violations and cost to repair.

In New Jersey and Oregon, the status and schedule of completion of any improvements still under construction must be disclosed. A statement describing noise and safety conditions, and provisions for sewage disposal and public utilities must be given to tenants and prospective buyers in both California and New Jersey.

Full disclosure requirements. On the state level, disclosure to prospective purchasers is most frequently accomplishjed by way of the Public Offering Statement or prospectus. In most cases, this must be filed with the relevant state agency prior to any offerings for sale, and a copy must be given to prospective purchasers, usually at or before the time a contract is executed. Disclosure requirements generally cover three categories of information, usually included in the offering statement: building reports, budgets, and legal documents.

a. Building report. The requirement of full disclosure of the building report is usually satisfied through the building and property reports described above, including condition, useful life, and estimates of repairs. 23/ Some states may limit the reports to conversions, as Maryland does by requiring reports only for buildings completed more than five years before the recording of the condominium declaration.

b. Projected budget and past operating expenses. Many states require disclosure of the projected annual budget for the first year of operation as a cooperative or condominium. Generally, this requirement is phrased in terms of the actual expenditures on all repairs, maintenance, operation or upkeep of the building or buildings. 24/ New Jersey, for example, requires an audited statement of expenses for the past five years, or the ownership period, whichever is less, certified by an independent public accountant.

23/ As above, California, Connecticut, Florida, Hawaii, Louisiana, Maryland, Minnesota, New York, Oregon, Ohio, Virginia, and West Virginia require that the Public Offering Statement include a statement by the declarant on the present condition of all structural and major mechanical components. Michigan's statute refers only to the disclosure of such material information as the administrator may require. Some states (see footnote 16) also require disclosure of estimates of useful life and repair costs. Ohio requires an estimate of repair and replacement costs for the next five years.

24/ Connecticut, Florida, Georgia, Hawaii, Illinois, Louisiana, Maryland, Minnesota, New Jersey, New York, Ohio, Oregon and Wisconsin all require a budget statement. Maine does also, but its disclosure requirements, in general, are only applicable to time-share projects.

Disclosure Requirements: Property Report, Budget, and Legal Documents

State with Agency Oversight and Disclosure to Prospective Buyers	States Which Mandate Disclosure to Prospective Buyers
California — Real Estate Commission[1]	Colorado[2]
Connecticut — Dept. of Housing	Georgia
Florida — Division of Florida Land Sales and Condominiums	Illinois[3]
Hawaii — Real Estate Commission	Maryland
Michigan — Corporation and Securities Bureau (Dept. Commerce)	Minnesota
New Jersey — Department of Community Affairs	New Hampshire
New York — Attorney General	Ohio
Oregon — Real Estate Commision	West Virginia
Virginia — Real Estate Commission	Wisconsin[2]

[1] Property report and legal documents only.

[2] Legal documents only.

[3] Legal documents and budget only.

There are several variations in this type of disclosure requirement: a few states require the disclosure of the actual operating costs for the past three years (or the maximum period the building has been occupied, if less than three years.); 25/ some states mandate that the budgets be presented on a per unit basis; 26/ and, other states require that the budget to be revised periodically. In Hawaii, the budget must be revised every 12 months, in Ohio, every 6 months. In New York, such changes must be made whenever a change occurs (such as publication of a new tax bill) that would materially affect the projected budget for the project's first year of operation. Finally, some states require a description of the budget provision (or lack thereof) covering reserves for capital expenditures. 27/

c. Offering statements. Most states with disclosure requirements mandate that prospective purchasers be given a "disclosure package," usually consisting of those documents previously filed with the governing state agency. Typically, this includes a Public Offering Statement or Prospectus, which usually contains, at a minimum, the declaration, bylaws, articles of incorporation of the association, (these first three being the legal or organizational documents), management contracts, budget information, recreational leases, and any encumbrances, easements, liens, or other matters affecting title. 28/ In addition, some states mandate that prospective purchasers be informed of the rights of tenants in a residential building undergoing conversion. Connecticut requires that purchasers be given a copy of the notice to tenants. New Jersey and New York both mandate that the Prospectus or Public Offering include a statement of the rights of nontenant purchasers of apartments that are occupied by tenanats who are entitled to remain for a brief or indefinite period. Illinois stipulates that the contract conspicuously disclose the tenant's right of first refusal.

25/ Connecticut, New York, Virginia.

26/ Florida, Hawaii, Illinois, Louisiana, Maine (time-shares only), New Jersey, New York, and Ohio, in particular.

27/ This is required in Connecticut, Louisiana, Maine (time-shares only), Minnesota, New Hampshire, New Jersey, New York, Ohio, Oregon, Virginia, and West Virginia (UCA).

28/ California, Connecticut, Florida, Georgia, Hawaii, Illinois, Louisiana, Maine (time-shares only), Maryland, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, Oregon, South Dakota, Virginia, West Virginia, UCA and Wisconsin require disclosure of most or all of the above to prospective purchasers. Colorado requires disclosure only of the bylaws.

Various requirements concern the delivery of the offering statement Some states do not specify a time when the disclosure information must be provided, and others stipulate only that it be provided "at or before" the contract. 29/ Still other states specify that the disclosure must be delivered prior to closing; other specify one to two weeks before the contract. 30/

Warranties. Only a few state statutes require warranties by condominium declarants or developers. 31/ This coverage usually extends to both the common areas and the units. However, conversions may not be covered by the same provisions as newly constructed condominiums. 32/ Most condominium statutes were drafted solely with new construction in mind (as, for example, provisions relating to condominium developers complying with subdivision laws). Thus, although the issue is an open one, in most jurisdictions a compelling argument can be made that conversions were not intended for inclusion in the warranty section of the applicable condominium statute. This conclusion would be reinforced if there were few or no conversions in the state at the time the statutory provision in question was enacted; it would also be supported if warranty statues governing the sale of real property in general within the state were restricted in their operation to new construction.

29/ California, Connecticut, Florida, Hawaii, Louisiana, Maine, Ohio, and Virginia do not specify a delivery time. Colorado and New Jersey require it be provided "at or before" contract. Illinois, Oregon, and South Dakota require it be provided "before" contract. New York mandates that tenants in occupancy must receive the "red herring" or first draft of the Offering Plan, before the same is delivered to the Attorney General's Office to obtain approval for filing and issuance.

30/ Maryland, Minnesota, and Wisconsin require that it be provided at least 15 days before closing. Georgia requires that it be provided at least seven days before contract. Michigan requires that it be provided 10 days before closing or before the purchase agreement becomes binding. Michigan also provides that this time limit may be waived in writing on an approved form.

31/ Connecticut and Florida provide fairly detailed coverage; Ohio, Oregon, and Virginia have more limited warranties.

32/ The New Jersey statute specifically provides that the statutory warranties on construction and fitness for intended use are inapplicable to conversions. In other states this exception may be read into the statutory scheme by implication. Oregon specifies that the declarant shall expressly warrant against defects in plumbing, electrical, mechanical, structural, and all other components of the newly constructed common elements, for at least one year from the first conveyance.

Warranty coverage of the common area generally applies to the roof, structural, and common mechanical elements for one or two years, either from the date of completion or conveyance. Again, these warranties do not usually apply to conversions. The most comprehensive and innovative approach for providing guarantees to prospective purchasers concerning the quality of the converted property is found in Florida. A converter must undertake one of the following three alternatives: establish reserve accounts for capital expenditures and expenditures for deferred maintenance 33/; provide warranties on certain building components; 34/ or post a surety bond equal to reserve account requirements. 35/

Escrow funds to ensure completion or renovation of common elements. A few states require that when units are contracted for or conveyed prior to their completion (or completion of the common elements), the developer must either post a bond or place in escrow some or all of the purchase price to ensure completion. Some states also require that the developer post security to cover all uncompleted work on the unit or common areas. 36/

33/ The Florida statute specifies the creation of reserve accounts for the air conditioning system, plumbing system (if water is supplied to the project in galvanized plumbing), and the roof. A detailed formula specifies the cost and useful life of the relevant building components to be used in determining the converter's contribution to each reserve account. The reserve accounts are funded on a pro rata basis upon the sale of each unit.

34/ If the converter does not create reserve accounts or post a security bond, the statute deems that the converter has granted each unit purchaser an implied warranty of fitness and merchantability for the purposes or use intended, as to the roof and structural components of the improvements and as to the mechanical, electrical, and plumbing elements serving as improvements (except mechanical elements serving only on unit). The time of the warranty runs from the larger of (but in no event more than 5 years) the following: three years from the notice of intended conversion; one year after the homeowners obtain control of the association; or, three years from the recording of the declaration to condominium. A developer may satisfy these responsibilities by obtaining an adequate warranty insurance policy.

35/ A converter may post a surety bond, payable to the association, to cover the amount specified for reserve accounts.

36/ Virginia, in particular, requires that on uncompleted improvements to common elements, the developer must post a bond equal to 100 percent of the estimated cost of completion. Hawaii and Montana provide, that as to units sold before construction is completed, all monies paid from the sale must be put in escrow. Montana also provides that any funds obtained prior to the issuance of the final report shall be refunded if there is any change in the condominium building plans subsequent to execution of the contract, unless the purchaser accepts the change.

Other states require that part or all of any deposit or sales monies must be put in escrow to cover any uncompleted work. 37/ However, because of their scope, these measures are seldom applicable to condominiums arising from a residential conversion. The terms of such measures indicate quite clearly that they were intended to apply to new construction. Moreover, these measures have no application to residential conversions involving property converted to cooperative housing status.

Purchaser's right to cancel or rescind contracts of purchase. The right to rescind or cancel is sometimes provided for a certain number of days after execution of the contract, 38/ or after receipt of all required disclosure documents, whichever is later. The most common provision for cancellation specifies a period of days (after either full disclosure or any amendments or "material changes") during

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37/ Michigan gives the state administrator power to require an escrow of a portion of the sales price, to cover cost of construction of the recreational facilities and other elements. Maryland mandates that, for any unit uncompleted at contract, the purchaser's deposit must be escrowed or a corporate surety bond, payable to the state, must be obtained. Connecticut requires that a declarant must post a bond or escrow 10 percent of the purchase price to cover uncompleted elements. Florida provides that if a developer contracts to sell before substantial completion of any elements, he must escrow 10 percent of any sale price received.

38/ In Connecticut and Maine, (time-shares only) this right lasts 15 days; in New Jersey, 7, and in Oregon, 3. Michigan addresses only to reservation or subscription agreement, which the prospective purchaser may cancel within 10 days after receipt of required disclosure documents. Virginia allows cancellation within ten days of the later of the contract date or receipt of all disclosure information. Florida gives the buyer 15 days after execution of the contract and receipt of all disclosure information.

which the buyer may rescind a purchase agreement. 39/ New York, for example, affords purchasers the right to cancel for several days after receipt of the public offering statement (up to the time of conveyance). In addition, purchasers must be afforded a further right to rescind for 10 days whenever a material change is made in the offering plan. A few states specify that the right to rescind terminates at the unit.

Escrow of purchaser deposits. Several states provide that all deposits or payments received from purchasers on a contract or reservation agreement must be held in escrow until closing. 40/ A few states require that a developer escrow all money paid before issuance of the final public report, and if this report is not issued within one year of the preliminary report, the purchaser is entitled to a full refund. 41/

Rental Stock Protection: Preservation of Low- and Moderate-Income Housing

California is the only state with legislation focusing on preservation of the low and moderate income rental stock. State statutes require that local agencies consider the housing needs of the region when

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39/ Louisiana permits the purchasers to rescind up to 15 days after all full disclosure, or after any material changes up to closing. Maryland, Minnesota, and West Virginia provide for a 15 day right of rescision after receipt of the required full disclosure information. In addition, Maryland provides a 5-day right to rescind after any disclosure amendments. In Wisconsin, the right extends for 5 business days following notice of any material change in those documents (this right terminates if the buyer proceeds to closing). Illinois and New Hampshire stipulate that, if the disclosure information is not provided at contract, the purchase agreement is voidable within 5 days after the last item of information is received, or until closing, whichever is earlier. Hawaii and Montana declare that contracts are not final until purchasers have had a full opportunity to read the final public report. They may obtain refunds if the final report differs in "any material respect" from the preliminary report. Georgia provides that contracts executed within less than 7 days after receipt of all disclosure information are of no force on effect.

40/ California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, Ohio, South Dakota, and Virginia require this.

41/ Hawaii and Montana tie the escrow of funds to issuance of the full disclosure report.

looking at subdivision requests. In the area of protecting low- and moderate-income housing, California offers the possibility of financial assistance to enable conversion households to purchase their units. This assistance may not be more than 49 percent of the purchase price, nor may it reduce the purchaser's down payment to less than 3 percent of the total purchase price. 42/

Protection of Elderly and Handicapped Individuals and Families with Minor Children

Three states provide special protections to tenants who are elderly, handicapped, or have minor children. Minnesota, for example, permits all three groups to extend the right-to-occupancy period from 120 to 180 days upon written notice. Connecticut protects elderly (over 62), blind, and disabled tenants whose incomes are within certain limits from eviction without cause until January 1, 1983 provided the landlord does not remove the unit from the rental market or decide to live in it himself. This protection applies only to tenants in buildings containing seven or more units. 43/

New York has extensive provisions designed to safeguard the economic well being of elderly tenants. State legislation mandates that tenants who are 62 years or older when a conversion plan is declared effective do not have to purchase their apartments. These measures apply to conversions in New York City (the most populous portion of the state) and to municipalities in the surrounding counties (Nassau,

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42/ Eligibility for such aid is limited to households which meet the following requirements: an income at or below the median for the county; the household members must not currently own a residence and must not have owned any real property for at least three years; the household must not have previously received assistance under this chapter; and the household must be unable to acquire the dwelling unit without this assistance. The statute mandates that each recipient of assistance enter into a contract (secured by a deed of trust on the dwelling unit) under which the state would receive proceeds proportionate to the percentage of the initial purchase price which was paid with this financial assistance, whenever the unit is resold.

43/ Municipalities can set income limits between $13,000 and $21,000 for singles, and $17,000 and $25,000 for couples in regard to this protection. The lower limits prevail if a municipality does not act. The January 1, 1983 limitation is required by the state's "sunset" law and the legislature will review this provision in 1982. In addition, the bar to eviction covers all designated rental units whether or not a conversion is planned.

Rockland, and Westchester) if such municipalities have implemented the state law by local optional legislation. The three-county and New York City laws afford the nonpurchasing elderly tenant (and his or her spouse) a form of life tenancy, with rents to continue under any applicable regulatory system, or if unregulated, to be judged by a statutory standard based upon comparable premises available for rent in the area.

The New York City measure contains the following statutory prerequisites: the elderly tenant must have resided in the premises for at least two years prior to the time of the conversion; the apartment must be the tenant's primary residence; the annual income of the household must be less than $30,000; and the tenants must state their intention to take advantage of the benefits of this provision by completing forms from the Attorney General's office. This decision, however, can later be rescinded by the tenant. The New York City legislation also differs from its three-county counterpart in that it subtracts elderly tenants who choose to take advantage of this statute from the total number of tenants in the premises when determining whether or not 35 percent of the stabilized tenants have purchased (as required for an eviction plan). If the elderly tenants who are taking advantage of this statute occupy rent-controlled apartments, only one-half of their number is subtracted in determining whether the 35 percent sale to tenants (required for an eviction plan) has been met.

The Uniform Condominium Act Governing Conversions

The Uniform Condominium Act (UCA), developed after several years of drafting by the National Conference of Commissioners on Uniform Laws, seeks to unify and modernize the law of condominiums. The UCA was adopted by the National Conference in the summer of 1977 and approved by the American Bar Association in the winter of 1978. The act has been promulgated to every state for consideration. A number of states have the act under active consideration, with West Virginia being the first state to enact it on February 15, 1980, followed by Minnesota on April 16, 1980.

The act seeks to remedy inadequacies and inflexibility found in the "first generation" of condominium legislation passed in the 1960s and meet the need for greater consumer protection. The commentary to the UCA indicates that the section on condominium conversions is substantially based on similar provisions in the condominium statutes of Virginia and the District of Columbia. The UCA is, therefore, likely to serve as the basis for future revisions of condominium law in many states with "first generation" statutes. 44/

44/ It should also be noted that implementation of the provision of this model statute via its adoption by individual state legislatures would not affect conversion to cooperative housing status, in the absence enactment of parallel measures to cover this type of conversion.

Three major aspects of the Uniform Condominium Act relating to conversions are discussed in detail in the following pages. They are protections afforded tenants, buyer protections, and limitations on local government authority to regulate condominiums.

Protections Afforded Tenants

The UCA provides tenants in condominium conversions with two principal rights. First, a tenant is given 120 days notice of conversion, which also may constitute the notice to vacate. Second, in the notice of conversion, a tenant is given the right of first refusal, i.e., the right to purchase his or her unit on terms equal to those offered the public.

Notice of intent to Convert/Notice to Evict. The act requires a declarant to give tenants and subtenants in possession at least 120 days notice of the conversion. The notice must generally set forth the rights of tenants and subtenants under the conversion section of the act, i.e., rights as to notice and right of first refusal. No tenant or subtenant may be required to vacate on less than 120 days notice, except for cause, and the terms of the tenancy may not be changed during that period. The notice of intent to convert may also constitute the statutory notice to vacate if it specifies a date by which the unit must be vacated.

Right of First Refusal. As to residential units whose dimensions will be substantially the same after the conversion, the declarant must offer tenants the right to purchase their units. The act recommends that this right of purchase be available for 60 days after notice of conversion, and that if a tenant fails to exercise it, the declarant not offer the unit on more favorable to a third party for the following 180 days. If the declarant conveys a unit to a bona fide purchaser without having given the tenant a right to purchase, recording of the deed extinguishes the tenant's right to purchase but does not affect any right the tenant may have to recover damages from the declarant.

Buyer Protections

The UCA adopts a full disclosure scheme for informing the potential purchaser of all aspects of the building and unit. A public offering statement must be prepared and submitted to a review agency (this is optional under the act) or to the purchase. The opening statement requires information on the developer and his or her overall plans for the project, the legal documentation, the projected budget and monthly assessments, purchaser rights to cancel a contract to purchase, and any warranties offered or disclaimed.

The UCA requires several additions to the offering plan in the case of condominium conversions. A statement prepared by an independent architect or engineer must be included describing the present condition of all structural components and any mechanical and electrical system material to the use and enjoyment of the condominium. In addition, the UCA requires statement on the expected useful life of each structural, mechanical, or electrical component, or a statement that no representations are made in that regard. Finally, the public offering must contain a list of any notices of unconverted building code violations together with an estimated cost to correct the violations.

Engineer's Report; Building Code Violations. The Uniform Act mandates that the public offering statement for converted condominiums must contain a statement by the declarant based on an independent architect's or engineer's report covering the present condition of all structural components and mechanical and electrical installations. This additional information is required for conversions because of the difficulty a purchaser would have in determining the condition of an older building. The declarant is also required to make a statement as to the expected useful life of the above items, or a statement that no misrepresentations are made in this regard. In addition, any outstanding notices of building code violations must be listed, as well as the estimated cost to cure the violations.

Budget Provisions. The general provisions of the act governing public offering statements require disclosure of the current balance sheet and a projected budget. The act suggests that these be provided for one year after the first conveyance. The budget must be include a statement of the statement reserved for capital repairs and replacement, or a statement that there is no such reserve.

Legal Documents. The declarant must provide purchasers with copies of the public offering statement (which includes the declaration, by-laws rules and regulations of the condominium, and any contracts or leases to be executed by the purchaser).

Warranties. The act's sections on express and implied warranties apply to all condominiums, with no specific provisions applying only to converted condominiums. The act provides that express warranties of quality may be given by the declarant acting in a way that creates particular expectations in a purchaser. This may be by an affirmation or a promise, or via models, descriptions of physical characteristics, or the plans and specifications. The burden is on the declarant to show that a contracting purchaser did not rely on any such representations.

The act provides an implied warranty that a unit will be in at least as good condition at the time of conveyance or possession as it was at the time of contracting. 45/ The declarant also warrants by implication the suitability of the premises for ordinary use and that improvements will be free from defective materials and legally and soundly constructed. These warranties may be created regarding both the units and the common elements.

Purchaser's Right to Cancel. The act provides that if a purchaser is not given a copy of the public offering statement more than 15 days before execution of a contract, he or she may cancel the contract without penalty within 15 days of receipt of the statement, at any time up to the time of conveyance. Delivery of the public offering statement is not required prior to execution of a "nonbinding reservation agreement", as these agreements may be unilaterally cancelled by a purchaser at any time without penalty.

Escrow of Deposits. The act provides that any reservation deposits made to the purchaser must be held in escrow until closing or until refunded to the purchaser (unless paid to the declarant upon a purchaser's default under the terms of the contract).

Limitations on Local Government Authority to Regulate Condominiums. The UCA contains a significant provision pertaining to the authority of local governments to regulate condominiums, including conversions. Under the UCA, local governments would be barred from using zoning, subdivision, building codes, or real estate regulation to prohibit the condominium form of ownership or to impose any requirement upon a condominium form of ownership which it would not impose upon a physically identical development under a different form of ownership. In the case of a condominium conversion, this section appears to bar local governments from regulating a building in one way for rental use and in another way if it is converted to a condominium.

45/ The implied warranties may be excluded or modified by agreement of the parties or by disclaimers; except that, for residential units, the disclaimer must be specific and must be contained in an instrument signed by the purchaser. The act states that the statute of limitations for breach of the express or implied warranties is 6 years, but may be reduced to not less than 2 years by agreement of the parties. As to the unit, the cause of action accrues at the time of first possessionor when a non-possessing interest was conveyed. As to the common elements, the cause of action accrues at completion, or at conveyance of the first unit to a bona fide purchaser, whichever is later. If a warranty of quality explicitly extends to future performance, accrual is at the earlier of either discovery of the breach or the end of the explicit warranty period.

First, the general prohibition on local government regulation does not apply to the financing of construction, rehabilitations or purchases of condominiums through programs established by Federal exceptions to the limitation on local government regulations. Second, the general prohibition on local government regulation does not apply to the financing of construction, rehabilitations, or purchases of condominiums through programs established by Federal or state law and operated by state or local governments. Third, a statutory or home rule charter city may prohibit or impose reasonable conditions upon the conversion of buildings to condominium for of ownership in two circumstances: the city must have significant shortage of suitable rental dwellings available to low- and moderate-income individuals or families; or the city must impose such a prohibition or restriction on convrsions in order to maintain eligibility for any Federal or state housing assistance program. A public hearing must be held before enacting any prohabition or restriction on condominium conversions. Finally, it appears that under both exceptions, any regulation is limited to 18 months duration.

In the remainder of this chapter, the legal arguments likely to be made concerning government regulation, especially municipal regulation, of condominium and cooperative conversions are considered.

The Legality of Conversion Regulations and Moratoria Adopted by Local Governments

Various types of conversion regulation have been adopted by municipalities throughout the United States. Because most conversions taking place in these population centers involve a switch from rentals to condominiums (as opposed to cooperatives), these ordinances are invariably addressed to this form of conversion. While most local enactments are designed to broaden consumer protection and to soften the impact of dislocation upon existing tenants (whose occupancy may be abruptly terminated to facilitate conversion and sale of units to prospective purchasers), some have taken the form of a moratorium upon conversion.

Several different types of local regulations of conversions have been subjected to judicial scrutiny. While few state courts of last resort have spoken definitively on the issues involved, local government enactments concerning conversion have generally been sustained. However, generalizations should be approached with caution because different ordinances may present radically different legal issues, ranging from mundane questions concerning home rule, to rent control authorization, equal protection, and substantive due process. Moreover, cases can be gathered from various states, pointing in almost any direction on these questions. Nevertheless, there has been sufficient judicial consideration of these ordinances to enable identification of the types of issues that will be raised in future litigation involving them.

The State Preemption Question. An initial inquiry in many of the cases reviewed was whether or not the state had expressly or implicitly prohibited local regulation of condominiums. Since the condominium is a creature of state enabling legislation (like a business corporation), and since the public has an interest in statewide uniformity with respect to real property matters, it may be argued that local governments are prohibited from legislating regarding condominiums. While a few judicial decisions have reached this conclusion, most have found that the mere existence of a statewide condominium statute did not compel a finding of state preemption of the field. This conclusion is usually buttressed by the observation that the local laws in question supplement, rather than contradict, the statewide enabling legislation.

Of course, where the state legislature reserved to itself the prerogative to legislate in the conversion field (as in New York), local enactments would be ultra vires 46/ without question. It should also be noted that the preemption question would not normally be raised if the ordinance sought to regulate cooperative conversions, since the latter are not creatures of state statute.

Rent Control or Other Emergency-Based Ordinances. Where a local ordinance regulating or prohibiting residential conversions is presented as a form of rent control legislation, the question may turn upon whether the organic law of the local government encompasses the authority to adopt rent control measures. Questions of state preemption may also be presented if the jurisdiction's history indicates that the state legislature has reserved to itself the right to legislate in this field, or indicated that it was state policy not to adopt rent-control type measures. In most cases, the answer to such questions might have to be gleaned from inferences and an historical analysis of state rent control legislation, as opposed to a clear-cut statement of legislative policy on the matter.

Most local ordinances reviewed avoided the rent control label or format. Instead, they proceeded upon the basis of a finding by the local governmental body that a dire housing emergency existed due, in part, to the sudden upsurge in conversion of residential apartments to condominium status. In this connection, property owners could argue that conversions neither increase nor diminish the available housing stock in any given locality. Instead, the individuals and families competing for shelter are reshuffled among the existing facilities; with unit purchasers undergoing a change in status from renter to owner.

46/ Ultra vires is a legal doctrine used to designate acts which are beyond the scope of the power of a (municipal) corporation.

Thus viewed, conversions do not eliminate housing opportunities but
rather shift the legal status of apartments from lessee-occupied to
owner-occupied accommodations. Further, the dislocation of tenants
who cannot purchase, or choose not to purchase, must be balanced
against the opportunity for homeownership; the long-term security of
tenure achievable through acquisition of title to one's apartment;
the elimination of future landlord profits and potential landlord-
tenant disputes; the stabilization of neighborhoods and increased
real estate tax base associated with conversions; and the income tax
nd equity build-up features of homeownership. The value of unit
wnership as the average citizen's only real hedge against inflation
ust also be considered.

hile these factors would certainly support a municipality's determi-
ation not to regulate or ban conversions, they are seldom discussed
n judicial opinions regarding the validity of emergency measures
ntended to regulate or slow the trend to transform rental stock
nto condominium unit ownership. If anything, the tendency to sus-
ain local government measures, as an exercise of the policy power
s reinforced by the local legislative finding that conversions are
dversely affecting the renter population. [Only one court has found
is type of finding to lack evidentiary support in the record.]

e Substantive Due Process Argument. Almost invariably, those con-
sting the validity of local conversion ordinances argue that such
asures deprive the affected property owners (the landlord of the
artment building who seeks to convert it, unit buyers who have
ntracted to purchase an apartment, or both), of their property
thout substantive due process of law. Occasionally, such arguments
e linked with constitutional issues concerning to the impairment
outstanding contractual obligations. Most courts that have consid-
ed these questions have concluded that the local regulations or
ratoria under review are not so pervasive in scope or duration as
pass the invisible line that separates permissible regulation of
perty in the public interest from confiscation (or appropriation
private property for a public purpose without payment of just
pensation).

pronouncements of the United States Supreme Court in the last 20
rs indicate that arguments based on deprivation of property with-
due process are seldom fruitful if the ordinance under review
s not deprive the complainant of all reasonable use of his or her
perty. The Supreme Court's recent opinion in the landmark preser-
ion case, Penn Central Transportation Company v. New York City,
U.S. 104 (1978), is illustrative. Since conversion ordinances
ally operate to control or slow the process of conversion (as
osed to a long-term prohibition against this type of marketing
property), it is extremely difficult to make out a case of
plete (or all but complete) frustration of an owner's ability
economically operate or dispose of apartment holdings.

Equal Protection Considerations. In several cases that have arisen to date, it was argued that governmental regulation of conversions or moratoria violate the equal protection clause of state and Federal constitutions. However, in order for this contention to succeed, the complainant would have to carry the burden of demonstrating that the ordinance under attack lacks a rational foundation and constitutes invidious discrimination. Such an argument might be advanced where the ordinance is directed solely toward condiminium conversion (and leaves cooperative conversions wholly unregulated), or where the ordinance is restricted in its operation to certain types of residential real property (as, for example, buildings containing 30 or more units).

However, the courts are prone to allow wide latitude of action to legislative bodies in remedying social problems, and since condominium conversions are the most commonplace type of conversions, a local determination to tackle this form of conversion first (or exclusively) would be difficult to overturn. The same could be said for ordinances that reach only the larger projects, since conversion of the latter would have the greatest impact upon the perceived evil of tenant displacement in a tight housing market. Finally, the broad scope of the Supreme Court's opinion in Village of Belle Terre v. Boraas, 416 U.S. 1, 94 S.Ct. 15365 (1974), indicates that the "invidious discrimination" type of argument would probably not impress the members of that Court.

Conversion Moratoria. Most of the local ordinances that have imposed moratoria upon conversions have been of extremely short duration, averaging from 30 days to 6 months. The very brevity of the time span involved is likely to make a court challenge difficult to mount in time, much less succeed. Further, this type of legislation may be difficult to overturn where it is designed as a stop gap measure to enable the local legislature to study the situation and formulate a reasoned response to the housing problems occasioned by a flurry of residential conversions. The precedents in the area of building permits, sewer and water hook-up, and other types of stop gap land use moratoria indicate a willingness by the the courts to sanction short-term moratoria.

In the celebrated case of Golden v. Town of Ramapo, 30 N.Y.2d 359, 334 N.Y.S.2d 138 (1972), the New York Court of Appeals took solace in the fact that the planned growth zoning ordinance at issue would in no event delay development of the property for more than 18 years. Nevertheless, enactment of a prolonged or indefinite moratorium upon condominium conversions, or repeated reenactment of short-term moratoria provisions, would be much more open to attack than a one-time, short-term enactment prohibiting conversions while the local governing body completed deliberations on a plan or regulation.

The foregoing summary of the legal issues presented in this type of litigation is neither exhaustive nor meant to suggest the conclusion that the judiciary would reach in passing upon any given type of ordinance. Instead, it is an outline of the types of legal arguments (constitutional or otherwise) that are prevalent in such cases and a reference to some of the Supreme Court opinions that may influence the result. 47/

* * *

About half of all states have provisions in their condominium statutes which provide protection for tenants in converted buildings and buyers of new or converted units. These states are generally those which contain metropolitan areas experiencing significant amounts of conversion activity. Although most state tenant and buyer protection measures refer only to condominiums, a few states (such as California, Florida, and New York) have similar protections for cooperative tenants and owners.

The most frequent tenant protection measures involves notice to the tenant of the conversion, coupled with a guaranteed minimum tenancy period. Only a few states provide for an extended right to occupancy (over one year), and these states usually limit this protection to the elderly and handicapped. Almost every state with a notification requirement also grants tenants the right to purchase a unit in the conversion.

No state has prohibited conversions and only a few mandate that the converter provide relocation assistance to those tenants who leave the building at the time of conversion. Finally, three states -- New York, Connecticut, and Minnesota -- have enacted special protections which extend the right to occupancy for tenants who are elderly, handicapped or have minor children.

The most common buyer protection is some form of full disclosure of the legal, financial, and physical condition of the project. Another common buyer protection gives the purchasers the right to rescind or cancel the sales contract within a particular period. Only a few states specify that the developer must provide warranties, post surety bonds, or establish escrow funds to guarantee the quality or completion of construction or rehabilitation.

The Uniform Condominium Act (UCA) encompasses the latest effort to unify and modernize condominium regulations. Two states have already passed the UCA with amendments, and several more are actively considering it. The Act has several tenant and buyer protection measures similar to those passed in a number of states.

47/ The periodical literature, as well as the selected opinions to date on this subject, are excerpted in Appendix 2.

Although it is possible that more restrictive state regulations may be enacted in the future which will discourage conversions, it appears that tenant and consumer protection measures passed to date have influenced, but not significantly inhibited conversion activity.

Chapter XII

Local Government's Response to, and Regulation of Conversions

Many cities, towns, villages and counties have also responded to recent increases in the volume of rental conversions by adopting local ordinances which regulate or suspend the conversion process. As with state regulation, these ordinances can be grouped into the following categories: the protection of the rental status of tenants or purchasers (whether tenants or non-tenants at the time of conversion); the maintenance of an adequate supply of rental housing within the community; and the preservation of low- and moderate-income housing.

In this chapter, the national survey of local officials is used to estimate the amount of local regulation which has taken place and to determine the types of communities which have passed them. To illustrate the pattern of, and variation in local regulation, the conversion ordinances of 54 local jurisdictions are analyzed in detail. These include all of the central cities of the Nation's 37 largest SMSAs which have enacted regulations, and selected suburban communities and counties within the same SMSAs. Fully half of these jurisdictions are in California, a state which has had large amounts of conversion activity and, as detailed in chapter XI, has enacted a considerable amount of state-level regulation. The chapter concludes with a discussion of the basic policy preferences of the Nation's local chief executives -- especially, whether they favor or oppose government regulation of conversions.

Community Reaction to Conversions

One of the factors affecting the amount and kind of local government regulation is the community's response to conversion. As reported by local chief executives or their delegates, about one-third of all jurisdictions which have had conversion activity have experienced some negative community response, and organized opposition has occurred in 20 percent of these localities.

> In Philadelphia, for example, tenant groups were instrumental in the enactment of an 18-month moratorium imposed on conversion activity and an ordinance requiring one-year's notice to tenants residing in converting buildings.

The most frequent reaction, however, reported by nearly one-half of local officials, has been complaints from individuals in converted buildings. About one-fifth have also received complaints from purchasers of converted units regarding the quality of the property. (See table XII-1 App.) Of those communities which are experiencing negative community response, 37 percent have ordinances related to conversion, compared to only 7 percent of those communities where opposition has not been evident. Even so, nearly two-thirds of the communities where opposition had been made known to local chief executives do not have conversion ordinances. (See table XII-2 App.)

Local Government Response. Six percent of all the Nation's local jurisdictions which have had some conversion activity now have some form of local conversion ordinance. 1/ The rate of conversion enactment is higher, however, in certain types of communities. For example, regulation is present or pending in 24 of the 47 central cities located in the Nation's 37 largest SMSAs. 2/

The likelihood that a particular local government has enacted conversion-related ordinances is related to: the level and nature of conversion activity experienced within the community; the kind and degree of community response to it; actions, if any, taken by state governments that affect conversions; and their legal authority to legislate in this area. 3/ There is, therefore, considerable variation in the frequency, as well as the type of response. (See table XII-3 App.)

> **Variation by amount of activity:** Thirty percent of jurisdictions with high amounts of conversion activity have enacted ordinances, compared to approximately 11 percent of jurisdictions with low volumes of activity. (See table XII-4 App.)
>
> **Variation by region:** Local governments in western states (principally California but also Washington) are three times more likely to have enacted local ordinances concerning conversions then those in other regions. Local governments in southern states are least likely to have enacted conversion ordinances.

1/ Approximately 36 percent of local officials report some amount of conversion activity within their jurisdictions. Less than one-fifth of these localities have adopted conversion legislation. In a very few cases, communities which have had no previous conversions have also enacted a regulatory ordinance.

2/ Conversion ordinances have been enacted in 21 central cities and are pending in 3 more. A detailed review of conversion ordinances in the 37 largest Standard Metropolitan Statistical Areas is found in exhibit XII-1.

3/ Limited home rule power, preemption of conversion regulation by state law, or state constitutional limitations may limit local government authority to enact regulations governing conversions or homeownership.

Variation by community size: Smaller cities and counties are less likely than larger jurisdictions to have passed conversion ordinances.

Variation by governmental type: Twelve percent of all counties with conversion experience have passed ordinances compared to 18 percent of cities which have had conversions.

The type of legislation enacted by local governments has also varied. The most prevalent type of tenant protection ordinance, for example, deals with notification provisions, and the most prevalent type of buyer protection is the filing of a property report which describes the condition of converted buildings. The extent and nature of this variation is discussed in subsequent sections of this chapter.

Future Regulations by Local Governments. In addition to communities which have already enacted conversion ordinances, an additional 20 percent of jurisdictions with conversion activity are likely to enact ordinances in the next two years, according to local chief executives. Furthermore, 10 percent of all local officials in communities which already have conversion ordinances indicate that additional provisions will probably be passed in the coming years. Expectations of future regulatory ordinances are found in roughly the same proportion in all regions of the country and sizes of communities, and in communities with varying amounts of conversion activity. This suggests that regulation by local governments is likely to continue to grow in future years.

Notification to tenants of an impending conversion is the most frequently anticipated measure, followed by legislation to protect elderly renters. About two-thirds of those local officials who anticipate future legislation foresee one or both of these requirements. (See table XII-5 App.) Relocation assistance for tenants and special protections for low-income renters are anticipated by about half of these officials. The next most frequent type of anticipated ordinance is one which would provide public loans or grants to low- and moderate-income renters to assist them in buying their converted units, or would tie conversions to local rental vacancy rates. Finally, 30 percent of all local officials who predict future legislation expect that moratoria will be enacted; 25 percent expect that evictions from converting buildings will be banned in their jurisdictions.

Types of Local Regulation

This section describes five principal forms of local government regulation of conversions: conversion moratoria; tenant protection; buyer protection; protection of the rental stock; and preservation

EXHIBIT XII-1

LOCAL CONDOMINUM AND COOPERATIVE CONVERSION REGULATIONS IN THE NATION'S LARGEST METROPOLITAN AREAS

Standard Metropolitan Statistical Areas	Conversion Moratorium (1970–1980)		Conversion Ordinance or Policy
	Date	Length	
Anaheim-Santa Ana-Garden Grove, CA			
Anaheim City			§
Santa Ana City			A B
Garden Grove City			A B
Costa Mesa City			B C
Newport Beach City			A B C D
Orange County*			A B C D
Atlanta, GA			
Atlanta City			A B
Baltimore, MD			
Baltimore City			A C[1]
Boston, MA			
Boston City			A
Brookline City			A
Cambridge City			C
Buffalo, NY			
Buffalo City			
Chicago, IL			
Chicago City	3/79–4/79		A B
Arlington Hts.	6/79–8/79	2 mo.	A B
Evanston City	7/78–3/79	8 mo.	A B
Skokie City*	11/77–7/78	8 mo.	A B
Cincinnati OH-KY-IN			
Cincinnati City			
Cleveland, OH			
Cleveland City			
Beachwood City	8/79–11/79	3 mo.	A B C
Lakewood City	3/79–6/79	3 mo.	A B C
Lyndhurst City*			A B C
Columbus, OH			
Columbus City			
Dallas-Ft. Worth, TX			
Dallas City			
Ft. Worth City			
Denver-Boulder, CO			
Denver City			A
Boulder City			A
Detroit, MI			
Detroit City			
Hartford, CT			
Hartford City			
Glastonbury	10/79–11/79	1 mo.	A C
Houston, TX			
Houston City			
Indianapolis, IN			
Indianapolis City			A B
Kansas City, MO-KS			
Kansas City			
Los Angeles-Long Beach			
Long Beach City			A B
Los Angeles City			A B C D
Duarte City	10/79–4/80	6 mo.	A B C
Gardena City			B C
Los Angeles County*			A C D
Miami, FL			
Miami City			
Miami Beach	[illegible]	1 mo.	A
Milwaukee, WI			
Milwaukee City			
Minneapolis-St. Paul, MN-WI			
Minneapolis City			A B
St. Paul City			
Little Canada	1/79		§
Wayzata			A B
Nassau-Suffolk, NY			
[illegible] City			
* §			
New Orleans, LA			
New Orleans City			
New York, NY-NJ			
New York City			§
Fort Lee City	11/79–12/79	1 mo.	
* §			§
Newark, NJ			
Newark City			
Verona City	8/79–12/79	4 mo.	
Philadelphia, PA			
Philadelphia City	9/79–3/81	18 mo.	A B
Cheltenham Twp.			A
Lower Merion Twp.			A B
Phoenix, AZ			
Phoenix City			
Mesa City			B
Pittsburgh, PA			
Pittsburgh City			
Portland, OR-WA			
Portland City			
St. Louis, MO-IL			
St. Louis City			
University City			A B
Webster Grove City	8/79–2/80	6 mo.	A B
San Antonio, TX			
San Antonio City			
San Bernardino-Riverside-Ontario, CA			
San Bernardino City			C
Riverside City	2/79		§
Ontario City			
Montclair City			A B C
Placentia City	12/79–11/80	11 mo.	§
Upland City*	11/79		§
San Diego, CA			
San Diego City			A C
Chula Vista City			A B
La Mesa City			B C
Oceanside City*	3/79–11/79	8 mo.	A B C D
San Francisco-Oakland, CA			
San Francisco City	4/74–5/75	13 mo.	A B C D
* *	6/79–9/79	3 mo.	* * * *
Oakland City	10/79–12/79	2 mo.	A B C
Concord City			A B C
Marin County			A B C
Walnut Creek*			A B C D
San Jose, CA			
San Jose City	11/78–6/79		A B
Cupertino City			A B C
Mountain View	3/74–6/75	15 mo.	A B C
* *	3/76–3/77	12 mo.	* * *
* *	4/77–4/78	12 mo.	* * *
Palo Alto City*	12/73–11/74	11 mo.	A B C
Seattle-Everett, WA			
Seattle City	7/79–11/79		A B
Everett City			A B
Lynnwood City	6/79–10/79		A B C
King County			A B
Mercer Island*			A B
Tampa-St. Petersburg, FL			
Tampa City			
St. Petersburg City			
Washington, DC-MD-VA			
Washington City	9/79–3/80	6 mo.	A B C D
* *	[illegible]	6 mo.	* * * *
Montgomery County	7/79–11/79	4 mo.	A B C D

CODES

I Ordinance Pending

* Additional outside Central City jurisdictions in the SMSA having ordinances.

A. Tenant Protection
B. Buyer Protection
C. Rental Stock Protection
D. Preservation of Low- and Moderate-Income Housing

§ New York City has special state statutory authority covering elderly persons in conversions.

§ Local jurisdictions in Nassau, Rockland, and Westchester Counties may also be covered by state law protections for the elderly by passing a local option ordinance. The following communities have opted to be covered by State law.

Nassau County (Nassau/Suffolk)

Great Neck
Long Beach
Thomaston
Russell Gardens
Great Neck Plaza
North Hempstead
Rockville Centre

Rockland County (New York SMSA)

Clarkstown
Haverstraw
Nyack
Spring Valley

Westchester County (New York SMSA)

Eastchester
Harrison
Larchmont
Mt. Vernon
Greenborough
Hastings-on-Hudson
Irvington
Mamaroneck
New Rochelle
Pleasantville
Port Chester
Tarrytown
White Plains

FOOTNOTES

1. A Baltimore ordinance was struck down by a lower court; this decision was sustained on appeal.
2. A Chicago moratorium ordinance was struck down in Federal Court.
3. A Miami moratorium and conversion ordinance was struck down by a lower court and the case is on appeal.
4. A Fort Lee,N.J. moratorium was struck down by a lower court.
5. A Verona N.J. moratorium was struck down by a local court.
6. A Washington, D.C. moratorium was struck down by a lower court. The lower court's ruling was sustained on appeal.

of low- and moderate-income housing. It relies primarily on the information collected from local ordinances in the 37 largest SMSAs. This information is summarized in exhibit XII-1.

Temporary Conversion Moratoria. As a threshold response to significant or impending conversion activity, a number of communities have imposed temporary moratoria on further activity. A moratorium is generally designed to preserve the status quo while the full ramifications of conversion activity on tenants, buyers, the rental stock, and low- and moderate-income housing is assessed and an appropriate local policy is developed.

Nationally, moratorium regulations have been passed by more than one-third of the local governments with conversion ordinances (6 percent of all local jurisdictions). These moratoria generally range from 30 days to one year, with more than one half running for one year. In a few cases, the moratorium has been for more than one year.

In Washington, D.C., for example, a series of moratoria on cooperative and condominium conversions has occurred since 1976. The use of a moratorium was complicated by the City Council's recurring use of its 90 day emergency legislation power which does not require Congressional approval. While the 1976 Condominium Act regulated condominium conversions, cooperative conversions remained unregulated. Therefore, a 180 day moratorium on cooperative conversions was imposed in November 1976 to allow the city council time to pass permanent legislation on the subject. This moratorium was extended ten times over a period of three years. However, before the enactment of permanent cooperative legislation in September 1979, and because of rapidly increasing conversion activity, the city council passed a new moratorium (Emergency Condominium and Cooperative Stabilization Act of 1979) for 90 days and created a study commission. The 90-day moratorium with certain "hardship" exemptions granted to converters was extended twice through emergency legislation. The operation of the latest 90-day moratorium was enjoined by a D.C. court but the injunction has been stayed pending an appeal. 4/ However, the city council passed a new 180 day moratorium in permanent legislation (reviewed by Congress and thus free from the legal issue raised in the above lawsuit) which became effective February 23, 1980. During the new moratorium period the District of Columbia City Council will consider new legislation on condominium and cooperative conversions.

4/ Washington Home Owner Council, Inc. v. District of Columbia, A.2d ___ (D.C. Court of Appeals, Case No. 79-1053, May 28, 1980.) The court held that the adoption of successive, interim moratoria on condominium and cooperative conversions was unauthorized by the District of Columbia Self-Government and Government Reorganization Act.

Nationally, moratoria are reported more frequently in the western and north central areas of the country, and least often in the northeast and south. Communities with populations of 50,000 to 250,000 more frequently employ moratoria. Eight of 21 central cities in the 37 largest metropolitan areas had passed a moratorium on conversion activity prior to the development of permanent legislation. 5/ Three central cities currently have moratoria on conversion activity pending the development of permanent legislation.

Several moratoria enacted by municipal governments have been struck down in state courts, principally on state preemption grounds, and one moratorium has been enjoined by a Federal court on constitutional grounds because it was judged vague and arbitrary.

Moratorium legislation, as defined here, consists of short-term and emergency measures pending the development of permanent conversion regulation under zoning, subdivision, planning or other areas of municipal law. However, many of the permanent ordinances passed by municipalities, either incidentally or by design, result in a partial or complete ban on future conversion activity. The uses of vacancy rate conditions, building or design standards, or broad approval criteria concerning the social impact of conversions, have often resulted in a virtual stoppage of conversion activity.

Tenant Protections. The most prevalent form of protection afforded tenants in a building undergoing conversion is a written notice of the proposed conversion or intent to convert. Three-fourths of local conversion ordinances require a minimum period of notice. (See table XII-3 Appendix) Most of the notification periods run from 90 to 180 days, and many require that tenants be informed that their apartment must be vacated at end of the notice period. Many cities also require that tenants be given first option to purchase their own or another unit in the building. This "right of first refusal" often runs from 30 to 180 days and is tied to the notice of conversion or eviction arrangement. A number of cities prohibit the harassment of tenants before or during the conversion process and put limits on rent increases during the remainder of the tenants' residence in the building. Some localities require that the converter provide relocation information and services, moving expenses, or other benefits to tenants displaced by the conversion. About one-fourth of all communities with conversion ordinances require some form of relocation assistance. Only a few jurisdictions require tenant approval or consent to a conversion, or accord tenant groups a "right of first refusal" to purchase the building.

5/ See exhibit XII-1 for a detailed review of moratorium and other conversion legislation in the 37 largest metropolitan areas.

Special protections to the elderly, families with children, or the handicapped are provided by several localities. Nationally, one in five communities with conversion ordinances provide special protections for elderly renters, and only 15 percent provide special protection for low-income renters. Communities with heavy conversion activity are more likely than others to have passed ordinances giving protection to elderly tenants. These special protections generally include extended notification to vacate periods or rights to purchase, and relocation benefits. The few cities with regulations permitting lifetime tenancies to renters usually apply only to the elderly and handicapped.

The nature and extent of tenant protection measures is discussed in greater detail in the following pages. 6/

1. Notice of public hearing. Of the ordinances analyzed, only one local jurisdiction outside California requires notice of a public hearing prior to conversion. 7/ Hearing and notice provisions in California are often tied to the conversion approval procedure under California's unique Subdivision Map Act, and/or the Coastal Act of 1976, 8/ by which local governments regulate proposed development in accordance with local general plans. 9/

2. Notice of a proposed conversion and notice of eviction. The most frequent provision of local conversion ordinances is the requirement that the sponsor, declarant, or owner provide written notice to tenants of the intended conversion. The purpose is to provide

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6/ The ordinances referred to in this chapter are cited in Appendix 2.

7/ Lynnwood, Washington requires five days notice of the city council's hearing on an application to convert rental housing to multiple ownership.

8/ Subdivision Map Act (Government Code Section 66424); Section 30620 of the Coastal Act of 1976.

9/ Local variations of hearing notice provisions in California include the following: Riverside requires both notice of a hearing and an appeal for an "aggrieved party" within ten days of a decision; San Francisco limits the notice requirement to conversion of building with five or more units; Walnut Creek, Duarte, Mountain View, and Oakland tie specific notice periods of five or ten days to Tentative Map approval; Concord, San Diego, and San Jose tie similar periods to Planning Commission approval of a conditional use permit; and Garden Grove to site plan approval. Montclair and Los Angeles require ten and fifteen days notice of any hearing.

Additional Protections for Elderly and Handicapped Tenants

	Additional Notice of Conversion	Lease Extensions	Life Tenancies	Additional Decision Period to Extend Lease	Extended Right to First Refusal	Relocation Assistance
Beachwood, OH	X					
Boston, MA	X					
Cheltenham, PA		X				
Chicago, IL	X			X	X	
Duarte, CA		X				
Indianapolis, IN	X					
Lakewood, OH	X			X	X	
Los Angeles, CA		X				X
Lower Marion, PA		X				
Lyndhurst, OH	X			X	X	
Minneapolis, MN	X					
Montgomery Co, MD	X					X
New York, NY			X			
Newport Beach, CA		X				
Oakland, CA		X	X			
Oceanside, CA	X					
San Diego, CA						X
San Francisco, CA			X			X
Skokie, IL		X				
Walnut Creek, CA			X			
Wayzata, MN	X					

tenants time to consider the conversion and either decide to buy a unit or to seek alternative housing. The timing and length of notice varies, but the most frequent approach is to mandate 120 days written notice of conversion, after which the tenant may be evicted subject to other eviction procedures. 10/ In some cases, the notice periods range from 90 days to one year. 11/ Two-thirds of the local ordinances analyzed use this approach, and in about one-fourth of these cases, the statute specifies that the tenant may maintain occupancy for the specified minimum period, or for the remainder of the existing lease, whichever is longer. 12/ Usually the tenant must request in writing that an expiring lease be extended to the end of the notice period. About one-fourth of the localities which employ the notice of conversion/eviction also provide additional time (usually 60 days) before requiring elderly, handicapped or low income tenants to vacate. 13/

> Boston has an unusually lengthy provision for protected classes. The one-year notice period for all tenants is extended to two years for elderly and handicapped tenants with household incomes meeting, or below, the ordinance guidelines.

10/ The 120 days notice period is clearly the most common. However, it should be noted that in some cases, particularly California, state law mandates at least 120 days notice.

11/ Denver, Colorado and University City, Missouri require only 90 days; Montgomery County, Maryland, Webster Grove, Missouri, and San Diego, California, 180 days; Philadelphia, Pennsylvania, Boston, Massachusetts, Lower Merion, Pennsylvania and Mountain View, California, one year.

12/ The municipalities include: Indianapolis, Indiana; Arlington Heights, and Chicago, Illinois; Lakewood, Lyndhurst, Ohio; Orange County, California; Boston, Massachusetts; Philadelphia and Lower Merion, Pennsylvania. Under California State law, among others, this may be assumed; a developer may not break an existing lease for conversion purposes alone.

13/ Montgomery County, Maryland provides an additional 180 days for the elderly. Chicago, Indianapolis, Indiana; Minneapolis, Minnesota; Wayzata, Minnesota; Oceanside, California; and Lakewood and Lyndhurst provide an additional 60 days. Beachwood, Ohio has a 90-day minimum, with at least four additional months based on length of residence and a minimum of six months for the elderly.

Some of the ordinances specify a particular point in the conversion process at which notice must be given to tenants. This is usually the filing date for the declaration or property report, 14/ or the approval of the conversion application, 15/ or at other points during the conversion process. 16/

In addition, most ordinances providing for tenant notification of a proposed conversion require that during such notice period any prospective tenants must be advised of the proposed conversion prior to signing a lease.

3. Right to continued occupancy, lease extensions and lease renewals. While there is considerable overlap between the ordinances described in the previous section and those discussed here the provisions described here grant additional protection to tenants nearing the end of their leases. Some conversion ordinances address the problem broadly, giving all tenants a right to continued occupancy for a specified period of time, while others grant a right to lease extensions or lease renewals.

One municipality bans evictions for conversion purposes altogether.

> In Brookline, Massachusetts, the conversion ordinance states that no tenant who occupied a rental unit prior to the recording of the master deed for a condominium may be evicted by the landlord seeking to convert the building.

San Francisco's conversion ordinance is the only one that uses the term "lease renewal" in granting tenants an additional occupancy period. Any tenant can renew a lease for one year following approval of the Final Subdivision Map. The California cities of Cupertino, Garden Grove, and Palo Alto provide a 90-day lease extension if the lease expires before (or at the time) the Final Subdivision Report is issued or sales begin.

14/ Evanston, Illinois; Montgomery County, Maryland Everett, Seattle, King County, and Mercer Island, Washington; Lower Merion, Pennsylvania.

15/ District of Columbia and Lynnwood, Ohio.

16/ In some California cities, the notice is dated from a specified point in the Subdivision Map approval process; in Chula Vista, it begins with the establishment of a firm sale price; in Oceanside, 180 days notice can begin either with the notice of conversion or prior to commencement of sales.

Oakland, San Francisco, and Walnut Creek, California and New York City are the only conversion ordinances analyzed that grant life-tenancies to elderly tenants. 17/ Several local jurisdictions have limited provisions for continued occupancy for protected classes of tenants. 18/

4. Right to quiet enjoyment. A number of local jurisdictions have ordinances designed to protect tenants from harassment during the conversion process. Several limit the timing and frequency that a tenant's apartment can be shown to prospective purchasers. 19/ Others prohibit or limit any repairs or remodeling of the unit. 20/ Another type of protection is the prohibition or regulation of rent

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17/ New York City, under state law, must offer life tenancies to tenants (and spouses) 62 years of age or older on the date the offering plan is declared effective. This right is restricted to tenants with a household income below $30,000, who maintain the unit as their primary residence, and who have resided in the unit for at least two years. See exhibit XII-1 for the list of jurisdictions in Nassau, Rockland, and Westchester Counties which have adopted the "protection for the elderly" provisions.

18/ Skokie, Illinois grants elderly and handicapped tenants, as well as families with children, a minimum lease extension of six months, measured from the date the condominium declaration is filed. Los Angeles and Los Angeles County both provide one year of continued occupancy during relocation eforts; the city further states that there is no limit on continued occupancy during relocation efforts for the elderly, disabled, households with minor children, or residents of low to moderate income housing.

19/ Chicago's ordinance provides that no occupied unit can be shown to third parties for 30 days after the tenant receives notice of the owner's intent to record the condominium documents. Lakewood and Lyndhurst state that the tenant shall not unreasonably withhold consent from the developer to enter a unit to inspect or make repairs, or to show it to third parties, but condition this provision by defining entry by the landlord more than twice within a seven day period as an "abuse of the right of access."

20/ Marin County and Oakland, California prohibit any remodeling of an occupied unit for 30 days after the Final Subdivision Report is issued. Los Angeles County and Evanston, Illinois have adopted broadly worded measures stating that no remodeling or repairs may be made until the tenant vacates or purchases the unit (Los Angeles County), or while the unit is occupied (Evanston).

increases during the period the tenant is entitled to remain in the unit. 21/

While it is obvious that a tenant may not be evicted without good or just cause during any notice period contained in a particular conversion ordinance, some measures (King County and Seattle, Washington) contain an explicit statement to this effect. In addition, these ordinances forbid the sale of any unit if, in the preceding 150 day period, any tenant has been evicted without good cause.

5. Minimum tenant purchase or tenant approval. There are only a few ordinances in effect today which require that a certain percentage of tenants must either approve a conversion or agree to purchase units before the conversion can proceed. However, some ordinances have tenant approval provisions which exempt the conversion from other statutory requirements if the required tenant approval is obtained. This type of local law is discussed elsewhere in the study. 22/ The City of Newport Beach, California requires that at least 30 percent of the tenants express written interest in exercising their option to purchase their unit. San Francisco's conversion ordinance states that an application for conversion may not be filed unless 40 percent of the tenants have either signed intent to purchase forms, or indicate that they are eligible for, and interested in, lifetime leaser. Those qualifying for lifetime leases are included in the 40 percent needed for conversion.

21/ Everett and King County, Washington forbid a rent increase during the 120 day notice period. Oakland forbids any increase after the date of notice conversion is given, for as long as 12 months after the date the Tentative Map is filed. San Francisco prohibits any increase between filing and relocation, up to a maximum of one year. Lower Merion's ordinance prevents any rent increase for one year after the condominium is approved. The longest ban on rent increases is found in the Walnut Creek ordinance, which prohibits rent increases for two years measured from the time of the application to convert until the unit is sold (or until the application is withdrawn). In Beachwood, Ohio the rent of existing tenants cannot be raised more than the average increase in the Consumer Price Index over the previous 12 months. The Mercer Island, Washington, conversion ordinance states that during the 120 day notice period, rent levels cannot exceed 110 percent of the average monthly rent collected in the 12 months prior to the notice of conversion.

22/ See the section below on the "Protection of the Rental Stock" For a discussion of tenant approval, exceptions to vacancy rate, or other prohibitions on conversion.

6. Right of first refusal provisions. The exclusive right of a tenant to purchase his or her unit is loosely referred to as a "right of first refusal." This is one of the most frequent tenant protections provided. This right generally lasts 30 to 180 days, with most ordinances specifying 60 or 90 days, measured from varying points in the conversion process. 23/ Some ordinances provide secondary periods during which subtenants may exercise the right of first refusal if the tenant has not. 24/ Several ordinances prohibit the developer from offering the unit on more favorable terms for a certain period after rejection by the tenant, and may grant the tenant an additional period to consider any new offer. 25/

23/ The shortest right of first refusal period (30 days from delivery of the Progress Report) can be found in the Skokie conversion ordinance and in Mercer Island's ordinance (30 days beginning at the end of the 120-day notice period). Indianapolis gives tenants 45 days after the notice of conversion. Washington, D.C.; Atlanta, Georgia; Montgomery County; Minneapolis; Wayzata; and Webster Grove require 60 days right of first refusal after notice of conversion. Under the Subdivision Map Act, all California jurisdictions must require the developer to provide at least 60 days. This is measured from the Final Subdivision Public Report in Long Beach, Marin County, Montclair, Mountain View, Oakland, San Diego, and Santa Ana. Duarte and Oceanside measure from the Final Report or start of sales, whichever is later. Some California jurisdictions grant 90 days, again either from the Final Report or commencement of sales: Concord, Cupertino, Garden Grove, La Mesa, Orange County, Palo Alto, San Jose. A 90 day right of first refusal measured from notice of conversion is provided in Beachwood, Lakewood, and Lyndhurst. Arlington Heights, Chicago, Evanston and Lynnwood require 120 days notice. Lower Merion requires 180 days from filing of condominium documents, and Philadelphia, 180 days from notice of conversion.

24/ The Washington, D.C. conversion ordinance provides that the tenant has a right of first refusal for the first 60 days. If the tenant does not exercise this right, any subtenant may exercise it during the succeeding 60 days. The D.C. ordinance contains the caveat that both the tenant and the subtenant must be in compliance with the lease, and the unit must be retained without substantial alteration. Everett, King County, and Seattle provide subtenants a right to first purchase.

25/ Atlanta prohibits better offers for 120 days; Minneapolis for 180 days, and King County for one year. Evanston prohibits better offers for 180 days, without offering those terms first to the tenant, who then has 15 days to accept the offer. Lakewood and Lyndhurst have a similar provision for 90 days and ten additional days to consider a new offer.

A few of the ordinances provide extended refusal periods for protected classes of tenants. 26/ Every ordinance with a right of first refusal provision also provides for notice to the tenant of such a right.

7. Tenant group right of first purchase. Three of the municipal conversion ordinances analyzed contain provisions which grant a right to purchase the building to a tenant organization. Each provision is markedly different and merits special attention.

> The Washington, D.C. ordinance mandates that the landlord may not sell a building containing more than four units unless the landlord first offers the building to a tenant organization at a bona fide price. Such an organization, in turn, has 90 days within which to contract with the landlord for the purchase of the building. If no tenant organization exists the tenants are given an additional 30 days to form an organization legally capable of owning real estate. No down payment over five percent may be required and settlement must take place within 120 days of contract. These two conditions also apply to the individual tenant's right of first refusal.
>
> In Montgomery County, Maryland, prior to the transfer of title to any rental facility, the contract purchaser must give written notice of the proposed acquisition to each tenant of the facility. The tenants, in turn, are given 30 days to form a tenant organization (which must represent either 25 percent of the units or five units, whichever is greater). At the end of the 30-day period, the tenant group then has 120 days to execute a contract with the owner to purchase the property and then must settle on the purchase within 180 days of the notice of proposed transfer.
>
> Minneapolis requires that the conversion notice state that the tenants may form an organization for the purpose of offering to buy the building. However, the ordinance goes on to specifically disclaim that this creates a right on the part of tenant organization to purchase such property, nor does it obligate anyone to negotiate with, finance, or sell such property to the tenants' association.

26/ Chicago extends the right of first refusal from 120 to 180 days; Lakewood and Lyndhurst from 90 to 120 days.

8. Relocation assistance. Some tenants will choose not to purchase their units. About one-fourth of the local jurisdictions which have conversion ordinances mandate relocation assistance for nonpurchasing tenants, either in the form of moving or relocation expenses, or through a more comprehensive relocation assistance plan. Those jurisdictions which require the developer to make assistance payments may specify that moving expenses are to be paid; either the actual moving costs subject to a maximum, or some set amount, usually in addition to other forms of assistance. 27/ Other ordinances may require the developer to make relocation assistance payments which are not directly tied to moving expenses. This amount may be set by the ordinance, or derived from a formula based on monthly rent or other factors. 28/ Some of the ordinances analyzed limit relocation

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27/ Evanston requires the developer to pay actual moving costs, or the higher of $300 or one month's rent. The District of Columbia specifies $125 times the number of rooms in the unit, to be paid before the tenant vacates the unit (provided the tenant has given notice of intent to vacate.) San Francisco requires payment up to $1,000 or an amount fixed by a Relocation Schedule; Los Angeles and Los Angeles County require $500 moving expenses in addition to relocation assistance; Santa Ana requires reimbursement of moving expenses up to $500 per unit. It should be noted that California cities and counties which are under the jurisdiction of the California Coastal Commission must include provisions for relocation assistance.

28/ Seattle requires $350 per unit to be paid to any tenant or subtenant who vacates voluntarily or involuntarily. King County requires $350 or two months rent, whichever is greater, to be paid to any tenant vacating after the 120-day notice period. The landlord must also pay the depreciated value of any leasehold improvements made by the vacating tenant. In Everett, an unusual provision limits assistance (of $350) to any tenant who moves in within 60 days prior to the notice of conversion and is not notified of such conversion. Duarte provides a payment equal to one and one-half times the montly rent, while Walnut Creek stipulates two times the monthly rent. Los Angeles County requires $1,000 be paid each household or, at the tenant's option, the monthly rent multiplied by the number of years the tenant occupied the unit. Oceanside and San Diego mandate payment of one and two months current rent, respectively.

assistance to elderly or low- to moderate-income tenants, or provide additional benefits for these protected tenants. 29/ Two of the ordinances examined have additional provisions which resemble rental subsidies.

> In Washington, D.C., the measure stipulates that anyone displaced who has been a tenant for at least a year must be paid an amount equal to: (1) the difference between 25 percent of the monthly family income and the rent to be paid in the first month after relocation; or (2) the difference between the old rent and the new rent. The formula to be used would depend upon whether the old rent was more or less than 25 percent of the family income. Either amount must be multiplied by 24 to arrive at the figure which the converter must pay. For the succeeding 36 months, the city makes the same payments.

> The City of Los Angeles requires that a rental subsidy, equal to the increase in rent necessitated by relocation, must be paid for one year, with a $100 per month limit. An unconditional $500 payment must be made in addition to the rental subsidy. Specially protected classes (tenants over 62 years of age; handicapped or disabled tenants; families with one or more minor children; tenants occupying low- or moderate-income housing) are entitled to a $2,500 payment per household, in lieu of relocation expenses and rental subsidies.

Some municipalities require the developer to formulate relocation assistance plans, either in lieu of, or in addition to, any payment of moving expenses or other cash allowances. The relocation plans are often part of broader tenant assistance programs mandated by the particular ordinance. One frequent requirement is a list of comparable

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29/ Montgomery County, Maryland provides $750 in moving expenses to those meeting or below income guidelines. The City of Los Angeles provides for a substantially greater payment ($2,500 per household) to special classes of protected tenants, including persons over 62, those who are handicapped or disabled, or households with minor children. In San Francisco, the relocation payments specified are only available to tenants during the 120-day period or the term of their lease. However, the elderly may receive this payment whenever they elect to move. Oceanside increases the payment from one to two months rent for low income tenants. Evanston and Skokie limit the provision of moving expenses to tenants eligible for or receiving (respectively) Section 8 housing subsidies.

rental housing available in the immediate area. 30/ A few communities require a developer to post security, usually a fixed amount per unit, to provide relocation costs. 31/ Several conversion ordinances not only require the developer to provide relocation services, but also mandate that a comprehensive plan be designed to minimize displacement in the first instance. 32/

A few cities offer tenants the services of their own relocation agencies in addition to developer efforts. In Washington, D.C., the city's Rental Accommodations Office furnishes information on comparable substitute housing and government housing program. The developer must also provide tenants with forms to apply for relocation expenses and housing assistance payments.

9. The right to cancel existing leases. Most of the conversion ordinances analyzed which provide for relocation assistance also contain a provision which enables tenants in a building about to be converted to terminate their leases upon notice, usually written, to the landlord. Thus, a tenant who has found new housing is not

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30/ Walnut Creek (list of other rentals available in the area); Santa Ana (plan setting forth comparable replacement rental housing); and Oceanside (report listing comparable dwellings, but allows the developer to provide his own tenant-assistance plan, subject to approval by the City Council). Other ordinances that require relocation assistance programs include Mountain View (developer must provide temporary relocation of tenants during renovation); San Francisco (developer must provide temporary and permanent relocation service during the 120-day notice period or lease extension period); and Los Angeles (a covenant and agreement must be executed which outlines a relocation plan). Again, localities under the jurisdiction of the California Coastal Commission must provide relocation assistance.

31/ Santa Ana requires the developer to post security equal to $500 multiplied by the number of units being converted. Los Angeles County and San Diego specify that $500 per unit must be deposited for costs incurred in providing relocation assistance to special classes of tenants.

32/ Cupertino permits the developer to consider discounts, extended leases and moving allowances in order to mitigate the effect of lack of comparable housing accommodations. Oakland requires both a Preliminary and Final Assistance Program designed to minimize displacement as well as to assist tenants in relocating. In Orange County, an application to convert must include a Housing Program which contains a plan to provide affordable housing in the project as well as a relocation plan for displaced tenants.

bound to the lease and may move without delay. The typical lease-cancellation provision requires 30 days written notice to the landlord and allows the tenant to exercise the right of cancellation any time after notice of an impending conversion is given by the landlord. 33/ Notice periods in other ordinances range from 15 days to 120 days prior to vacating an apartment. 34/ The right to cancel a lease is sometimes linked to a special class of tenants, such as the elderly. 35/

10. Miscellaneous tenant protection measures. There are many miscellaneous or isolated tenant protection provisions found in particular conversion ordinances in addition to those discussed so far. Various tenant concerns, such as unit price, 36/ protection from landlord retaliation, 37/ and appeals from conversion approvals, 38/ are

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33/ Cupertino, Garden Grove, Oakland, Palo Alto, Montgomery County, San Francisco, Skokie.

34/ Orange County only requires 15 days notice to the landlord by any tenant. Lakewood and Lyndhurst grant the right to cancel, with 45 days written notice, to anyone whose tenancy expires after 90 days from notice of conversion. Evanston and Webster Grove, Missouri require 60 days notice. In addition, Webster Grove stipulates that anyone who receives a notice of conversion within 30 days of signing a lease has 15 days to serve a 15-day notice of intent to vacate. Philadelphia requires 90 days notice to the landlord. Everett and Seattle require the most notice, 120 days, prior to vacating. The District of Columbia does not afford tenants any right to cancel existing leases, even though the District's ordinances contain extensive provisions dealing with relocation.

35/ San Francisco, while having a 30-day notice provision, only grants the right of cancellation to elderly tenants under life-tenancies.

36/ The City of Duarte's ordinance contains a unit price provision to the effect that the maximum price to be charged for a converted unit shall be the fair market value of the building, plus 20 percent of the fair market value and conversion costs, divided by the number of units.

37/ Mountain View and Oceanside both prohibit any kind of retaliation against tenants who oppose the conversion. Oceanside's ordinance also states that a tenant cannot waive any protection provision contained in the ordinance.

38/ The right of certain persons to appeal approval of a conversion application is contained in the ordinances of San Diego (any "affected tenant"), San Francisco (at least "20 percent of the tenants") and Riverside (any "aggrieved party").

typical of the areas covered. Finally, Montgomery County has a unique provision which grants any group that consists of 25 percent or more of the tenants the right to designate an engineer to do an independent study of the property being converted. The provision also obliges the owner to give the tenant's engineer access to the property to perform a complete inspection.

Buyer Protections. Most municipal ordinances seek to protect buyers through substantive standards concerning the physical condition of the building, and/or requiring full disclosure of the legal documentation, financial status, and existing and future physical condition of the building. Many communities require condominium conversion to meet certain development standards, often those for new condominium construction, relating to parking, open space and recreational facilities, acoustics, separate utility metering, storage space and minimum unit size. Most ordinances mandate a city inspection for building code violations and require either their correction or disclosure to potential buyers. In some cases, the disclosure of code violations must be accompanied by an estimated cost to correct. Most cities require that any building code inspection results must be included in a property report prepared by an independent, registered engineer or architect.

Nationally, more than half of all communities with conversion ordinances attempt to protect unit purchasers by requiring that a property condition report be prepared on the building or complex. Besides presenting information on code compliance, the property report must assess the physical condition of the major structural and mechanical components of the building, their useful life and estimated cost to repair. A number of communities use the code inspection and property condition reports as key elements of a full disclosure package provided to prospective purchasers of a converted condominium. In addition, many communities require additional disclosures concerning the legal documentation, and past and projected operating budget of the building, as well as information on any warranties provided.

With regard to warranties, several cities mandate warranties on common areas and individual units for specific time periods, and, in a few cases, require an escrow fund to cover claims under warranties. Other consumer protections include the right to cancel or rescind contracts of purchase and the regulation of design and development standards.

The nature and extent of these provisions are discussed in detail in the following pages. Many communities with buyer protection ordinances are in states which also have condominium conversion protection measures. Thus, in some cases, municipal ordinances overlap with state buyer protection measures in some respects, while in other respects local ordinances refine or substantially expand upon state condominium buyer protections.

1. Building inspection, code compliance and disclosure. Most ordinances mandate that all units to be converted must be inspected by the appropriate local agency. Ordinarily, this is a department concerned with building inspections and fire code violations. 39/ Ordinances requiring a code inspection invariably require that any violations thus discovered be corrected. 40/ Many of the ordinances that mandate inspection and code compliance also require disclosure to prospective purchasers of a list of uncorrected violations and the estimated cost of cure, or a statement of compliance with the current codes. 41/ A few ordinances provide for exceptions to code compliance, usually if an escrow fund or bond has been created to cover the uncured violations, 42/ or if the items in question were in compliance at the time of construction. 43/

39/ Municipalities with a code inspection requirement include Chula Vista, Concord, Costa Mesa, Cupertino, Gardena, La Mesa, Long Beach, Los Angeles, Marin County, Mountain View, Oceanside, Palo Alto, San Francisco, San Jose, Santa Ana, Walnut Creek, Skokie, University City, Webster Grove, Beachwood, Lakewood, Lyndhurst, Everett, King County, Mercer Island, and Seattle. Evanston and St. Louis require a Condominium Code Assessment Report. In addition, the installation of either fire or smoke detectors (or both) is specifically required in Concord, La Mesa, Riverside, Walnut Creek, and University City.

40/ Chula Vista, and Costa Mesa, California, and University City, Missouri, require that code compliance be indicated in the certificate of occupancy.

41/ Municipalities with statutes which contain this triad of provisions include Concord, Marin County, San Jose, Washington, D.C., Atlanta, Arlington Heights, Indianapolis, Everett, King County and Seattle. In Beachwood, Ohio any variances which were originally granted in connection with the property must be reapproved.

42/ In San Francisco and Walnut Creek, compliance with the building code is not required prior to approval of a conversion proposal if an escrow fund has been established to assure that violations will be corrected and repair work in progress will be completed. In Lakewood and Lyndhurst, Ohio, while the individual units must be in compliance, the common area need not be, if this fact is disclosed in the public offering statement and a bond equal to the amount of estimated repairs to the common area is posted.

43/ The Skokie, Illinois ordinance states that compliance with current codes may be waived with respect to the number of parking spaces, the number and location of units, or other provisions of the code, if these items were in compliance with the code in force when the unit was built.

2. Preparation and publication of a building, property or engineer's report. Since conversion of rental dwellings involves existing rather than new structures, the physical condition of the premises is an area of vital concern to prospective buyers. The majority of ordinances analyzed require the converter to have a building or property report prepared, usually by a professional engineer. This report must be filed with the appropriate local agency having jurisdiction over conversions (such as the Planning Commission or Zoning Board) prior to the offering of units for sale. Usually, the ordinances require presentation of this report to tenants and other prospective purchasers. The report generally covers major structural and mechanical components, including the foundation, roof, electrical, and plumbing systems. Some ordinances require only the basic report, 44/ but others require an additional report on estimated repairs and the estimated useful life of the property. 45/ Some California local ordinances require additional reports in reference to state disclosure laws. 46/

3. Full disclosure requirements. Although some jurisdictions require only the disclosure of the property report described above 47/, or the property report and the project budget 48/, most of the

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44/ Costa Mesa, Cupertino, Duarte, La Mesa, Los Angeles, Montclair, Mountain View, Orange County, Palo Alto, San Jose, Webster Grove, Riverside, and Walnut Creek require only a property condition report.

45/ Gardena (five-year projection of estimated repairs required), Oakland, Oceanside, District of Columbia, Atlanta, Arlington Heights, Chicago, Skokie, Montgomery County, Lakewood, Lyndhurst, Lower Merion, Philadelphia, Everett, King County, Mercer Island and Seattle.

46/ Pest reports are required in Concord, Costa Mesa, Cupertino, Duarte, Gardena, Los Angeles, Mountain View, Oakland, and Upland. A soil and geological report must be prepared in Cupertino, Duarte, Oceanside. Duarte also requires an appraisal report of the property that is about to undergo a conversion.

47/ Property reports alone are required in Gardena (20 days prior to closing), in Chicago (within 45 days of notice of intent to convert), and in Indianapolis, Montgomery County, Everett, and Mercer Island (within 15 days of notice of conversion).

48/ This is the case in Cupertino, Lower Merion (within 30 days of the filing of the condominium documents), Philadelphia (last three year's expenses and first year projected budget), and King County.

ordinances analyzed mandate that the building report, projected budget, and various legal documents must be part of a disclosure package presented to purchasers. Typically, any disclosure material that must be given to an purchaser must also be submitted to the local agency responsible for review and approval of conversions. Disclosure packages 49/ may vary in the timing of presentation and the specificaton if additional information is to be provided. 50/

4. Warranties. Some conversion ordinances mandate that the converter give warranties covering the common elements (including the structural, electrical, plumbing, heating and air conditioning systems), as well as the roof and elevator(s). These warranties typically run for one or two years and are secured by an escrow

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49/ The disclosure package is alternatively described in different conversion ordinances by the term "Information Sheet" (Mountain View), "Public Offering Statement" (District of Columbia, Lakewood and Lyndhurst), "Property Report" (Skokie), or "Condominium Disclosure Statement" (Webster Grove).

50/ In Duarte, Garden Grove, and Mountain View disclosure must be presented to purchasers at the time the offer of a right of first refusal is made. Atlanta, Arlington Heights (45 days prior to closing); Evanston, Skokie, (before binding contract); Webster Grove, Lakewood, Lyndhurst (15 days prior to contract); the latter two municipalities provide for 10 percent of the sales price to be forfeited as liquidated damages in the event such disclosure is not made), and Seattle (at least seven days prior to contract). Certain jurisdictions specify other documents to be included in disclosure requirements: Palo Alto includes a Primer on Community Housing; San Jose includes the FHA regulatory agreement, if any; while in Walnut Creek and the District of Columbia the declaration and bylaws for the owners' association must be presented within ten days of recordation. In Los Angeles, Montclair, and University City, the developer must provide the purchaser with a set of the legal documents which outlines the rights and duties of the unit owner in the condominium or cooperative. Cupertino requires that upon request the disclosures be presented in Spanish; San Jose requires all disclosures to be printed in English and in Spanish.

fund established by the developer. 51/ The units and the mechanical systems within them are sometimes the subject of developer warranties as well, but usually for a shorter time than the major systems. 52/

> Montgomery County, Maryland has a comprehensive warranty requirement, covering three years for the common elements, and one year for the unit, backed by a reserve fund established by the developer.

In some areas, such as Minneapolis and Wayzata, the representations and descriptions made by the sponsor-developer create express warranties. In addition, an implied warranty of good condition and suitability for uses attached to the individual units, and may be waived only for specific defects.

5. Purchasers' right to cancel or rescind contracts of purchase. Many municipalities include a right of cancellation provision among the buyer protection safeguards set forth in their conversion ordinances. Such a provision usually grants purchasers the right to rescind a signed purchase contract within a certain period of time, measured either from the date the contract was executed or the date disclosure material was received by the purchaser. Typically, all down payments are required to be returned to the purchaser, with any accrued interest thereon. The right to rescind a purchase contract

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51/ A one-year warranty period for the common areas is contained in the local ordinances of Concord (only as to a pool and pool equipment), Mountain View, Skokie, (from date of purchase), King County, Seattle and Montclair. Two year warranties are provided for in the District of Columbia (from the data of completion of the common areas); Evanston, Lakewood and Lyndhurst (from the date of the first unit transfer), and Lower Merion. Escrow funds must be established in Duarte; the District of Columbia (10 percent of conversion costs); Skokie (3 percent of sales price of each unit); Montgomery County; Lakewood and Lyndhurst (1 percent of sales price of each unit); King County; and Seattle (10 percent of the projected cost of repairs).

52/ One year warranties on the unit are provided by Duarte, Montclair, Mountain View, the District of Columbia (from date of conveyance), Montgomery County, Skokie (from purchase), Lakewood, Lyndhurst, King County and Seattle. Lower Merion requires a two-year warranty on the units.

must be accomplished within the stipulated period ranging from three to 15 days after its signing. 53/ The longest period is provided for in the Evanston ordinance, which gives a purchaser the right to rescind a contract within 30 days of receipt of the disclosure statement, if the disclosure statement is not given at least 30 days prior to contract.

6. Design and development standards. Although University City, Missouri requires separate utility metering and water control, all of the other local ordinances analyzed which contain standards of design were from jurisdictions in California. The high level of conversion activity and strong state and local regulations have led to relatively strict standards for parking, open space, and sound and noise correction. 54/

7. Miscellaneous buyer protection provisions. Several ordinances contain one or two buyer protection provisions in addition to those discussed to this point. Mountain View prohibits discrimination against households with children. The District of Columbia and Evanston require that purchaser down payments be deposited in an interest bearing escrow account. Management contracts are

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53/ Purchasers may rescind their contract within 15 days of execution thereof in Montclair; Mountain View; the District of Columbia (or within 15 days of delivery of an Offering Plan, whichever is later); Skokie; Montgomery County (or within 5 days of receiving the Final Property Report, or at any time prior to closing if the developer has not complied with the conversion ordinance); King County; and Seattle. In Lakewood and Lyndhurst, if the Offering Statement is not given at least 15 days in advance of contract, the purchaser has 15 days to rescind. The purchaser may rescind at any time up to closing in Everett and King County, if the required notices and diclosures are not given. Minneapolis and Wayzata allow a purchaser 5 days after contract within which to rescind. A tenant in Lakewood or Lyndhurst is given 3 days.

54/ The number of parking spaces per unit, and the number which must be enclosed are specified in Concord, Cupertino, Garden Grove, Gardena, Mesa, Riverside, San Jose, Long Beach, and Los Angeles. Open space areas are also required in most of these cities; in San Jose, reservation of open space could be a condition of conditional use permit approval. Noise standards are required in most of the California jurisdictions analyzed; many require a preliminary acoustical report. Separate utility metering, particularly for water is usually required, as is space for laundry facilities. Chula Vista, Duarte, La Mesa, Riverside, and Walnut Creek's ordinances address landscaping as well.

specifically dealt with in Mountain View; no management contract may run for more than 30 days after the unit owners assume majority control of the condominium. Skokie requires that no exclusive management contract may run for more than one year after the control of the project is turned over to the unit owners. In Chula Vista, purchasers must be informed that the property has been converted from a rental apartment project. Garden Grove requires that any appliance over three years old be replaced by the developer. Lynnwood requires that all current assessments for public streets and utilities be paid prior to closing of title to the first converted unit.

Other provisions are more closely related to the actual purchase contracts for the units. Lakewood and Lyndhurst enumerate "specific unlawful representations" such as falsely stating the number of back-up sales contracts or making a false statement with respect to a future rent increase. Montgomery County treats as void any waiver of purchasers' rights.

Arlington Heights' ordinance contains an unusual provision that oral representations are not binding on the developer and the purchasers are directed to read the Full Disclosure Report provided to them. In contrast, the ordinances in Everett and Seattle which state that it is unlawful to make oral representations which differ from statements made in the disclosure documents.

Even after tenant and buyer protection measures are adopted, the issue of a decrease in the rental stock caused by conversions still remains. The next section reviews several municipal ordinances which place significant conditions on the possibility of conversion or limit the amount of annual conversion activity allowed within the locality.

Protection of Rental Stock

A few municipalities, mostly in California, have adopted ordinances that condition the conversion of rental units on the status of the jurisdiction's rental stock. One means adopted by communities to protect the rental stock involves prohibiting conversions where the vacancy rate falls below a level generally considered to reflect a stable rental market. Nationally, less than one-fifth of the communities with conversion ordinances have rental vacancy rate conditions to conversions. The vacancy rate threshold adopted by communities ranges from three to six percent. Many vacancy rate ordinances provide an exception if a majority of the buildings' tenants consents to the conversion. The imposition of a vacancy rate condition in a conversion ordinance often creates, in effect, a moratorium on any further conversion activity. A few communities place a percentage or a numerical based quota on the annual number of conversions allowed, while others only allow conversions according to a formula tied to the production of new rental housing. Finally, a number of cities, again predominantly in California, use discretionary authority (in lieu of or in addition to the above conditions on conversion) in approving or disapproving specific conversion projects. The criterion used for approving a specific project application may include the conversion's effect on tenant displacement and the rental market; the need for low- and moderate-income housing; and the conversion's effect on the general health and welfare of the community.

Vacancy Rate Minimum. A number of municipalities, predominantly in California, have adopted vacancy rate conditions on conversion activity. The most commonly used vacancy rate thresholds are three, five, and six percent. 55/ The imposition of a vacancy rate condition often results in the immediate and perhaps permanent bar on conversion activity because of the tight rental housing markets and lack of any new rental construction in many communities. For example, the first ordinance of this kind was developed by the city of Palo Alto in 1974 and since that time, no conversion has occurred in that city. Palo Alto's original ordinance, and a number of other vacancy rate ordinances provide an exception to the prohibition if a majority or more tenants approve the conversion. In addition, the District of Columbia exempts luxury or high rent units from the vacancy rate bar.

Quota Approaches. A few municipalities have utilized a quota approach to ensure that conversions do not disrupt the rental market at any given time or seriously deplete the amount of rental stock. Conversion quota ordinances involve two kinds of formulae: an annual percentage of the rental stock limitation; and annual numerical limitation. Walnut Creek's ordinance is an example of a percentage quota that limits conversions to 5 percent of the city's potentially convertible rental stock in any one year. Palo Alto, Montclair, and other cities with vacancy rate conditions of conversion have adopted a quota approach when the vacancy rate threshold is exceeded. Palo Alto and Montclair define the number of vacant units in excess of three percent as a "vacancy surplus" and permits application for conversions which do not exceed the vacancy surplus plus 40 percent. San Francisco sets the maximum number of units which may be converted within the city (1,000 units).

55/ District of Columbia (3 percent or lower, unless a majority of tenants consent to conversion or the units are luxury or high rent units); Gardena (3 percent or lower, unless two-thirds of the tenants approve the conversion); Cupertino (below five percent); Marin County (below 5 percent, Planning Commission may deny approval); Newport Beach (5 percent or lower, unless two-thirds of tenants approve conversion, or project's effect is minimal); Orange County (5 percent or lower); and San Bernardino (below 6 percent).

New Construction Replacement. A third approach taken in tying conversion regulations to the local rental supply involves new construction. 56/ A few communities have developed formulae which permit a certain number of conversions upon the addition of new rental stock. La Mesa's ordinance, for example, states that the maximum number of units which may be converted within a given year shall be equal to 50 percent of the yearly average number of apartment units constructed in the previous two fiscal years. As one of its criteria for reviewing a conversion, Marin County considers whether the conversion will reduce the existing rental/homeowner dwelling unit ratio without replacement housing being provided. The Mountain View ordinance conditions approval upon the production of new rental units, and limits annual conversion approvals (developer and tenant consent to 5 percent of the total units. 57/

> The City of Oakland's conversion ordinance states that for conversions of five or more units, the developer must add a new rental unit to the housing stock for each unit converted. A developer can gain approval by showing proof that he has "conversion rights" through projects he has generated or through contracts from others. Conversion rights may be generated through new rental construction; by increasing the number of units in an existing residential rental building; by converting a nonresidential building to residential rental units; or through major rehabilitation of a residential building that had been vacant for one year prior to the commencement of the rehabilitation. The Oakland ordinance also creates conversion rights through the construction of a new condominium or cooperative if the owner of the project agrees to offer the units to the public as conventional rentals for at least seven years. However, a developer may have to provide replacement housing in the same neighborhood as the conversion project if the city finds that it will create a shortage or have other negative impacts in a specific area of the city.

56/ The distinction between ordinances discussed in this section and the following section on preservation of low- and moderate-income housing is the target group the replacement housing must serve.

57/ A conversion will only be approved in Mountain View if an equal number of new rental units has been added to the rental stock, or a majority of tenants agree to purchase their units. However, the deduction of rental units occasioned by the tenant approved conversion constitutes a "deficit" in the base number of rental units. A non-tenant approved conversion could only occur when this deficit plus a number of units equal to the conversion has been made up by new rental construction.

Montgomery County's ordinance has a unique provision which allows certain county agencies to exercise a right of first refusal within 120 days of notice of a proposed transfer of title to the property.

Discretionary Approval Criterion. Many localities, in lieu of (or in addition to) setting a vacancy rate minimum or quota, have given a local agency (e.g., Planning Commission) the discretionary authority to approve or disapprove conversions, based upon certain criteria. Uniformly recurring factors to be considered include the effect on tenant displacement, 58/ the effect on rental market, the need for low- and moderate-income housing, 59/ and the effect on the general health and welfare of the community.

The effect of apartment conversions on the stock of low- and moderate-income housing is a particular area of concern for many localities. Many of the municipal ordinances which set criteria for conversion approval (see preceding discussion of "Discretionary Authority") include the potential effect on low- and moderate-income housing as a factor in the decision to approve or disapprove a conversion application. The next section reviews

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58/ The Marin County ordinance states that if the number of rental units would be reduced to less than 25 percent of the total dwelling units, approval may be denied. Concord, Duarte, and San Francisco consider evidence of "warehousing" (vacancies being held) within a particular project prior to conversion. In Glastonbury, a conversion permit for any unit will not be issued until (1) a tenant has purchased a unit; or (2) the tenant has relocated or waived the right to relocate; or (3) 12 months have expired since the permit was applied for (24 months in the case of tenants 60 years or older); or (4) the party seeking conversion approval has increased the rental stock by 50 units in the previous 3 months. The District of Columbia cooperative ordinance prohibits conversion of a rental building to a cooperative unless (1) fewer than 50 percent of the units in the building are occupied; (2) 50 percent or more of the units are occupied and the majority of the heads of these households consent in writing to conversion; or (3) the building is a high rent housing accommodation. Under a newly enacted, 6 month moratorium legislation effective in February 1980, only cooperative conversions under exception (2) above are possible in limited situations.

59/ In Walnut Creek, once the quota of converted units has been reached, approval will only be granted if the developer provides for low- to moderate-income households and senior citizens, or provides for the construction of new rental housing, or donates land or funds for new rental housing or senior citizen housing. See also discussion on preservation of low- and moderate-income housing.

ordinances which have specific provisions designed to protect the availability of low- and moderate-income housing, either by mandating rental and homeownership set-asides in a conversion project, or by requiring the developer to contribute funds for the construction of new low- and moderate-income housing.

Preservation of Low- and Moderate-Income Housing

A very small number of communities have adopted provisions which seek to preserve or enhance the supply of low- and moderate-income housing. While benefiting individual low- and moderate-income households in conversions, the key focus of these measures is the future availability of low- and moderate-income housing opportunities. Under these ordinances, converters may be required to set aside a specific number of units for low- and moderate-income rental or homeownership, provide low- and moderate-income units in a new construction project, or contribute to a public fund which furthers low- and moderate-income housing opportunities.

Conversion ordinances which seek to preserve low- and moderate-income housing can be divided into the following two major categories: (1) set-aside provisions; and (2) replacement of low- and moderate-income housing.

Set-Aside Provisions. Set-aside provisions usually require that a certain percentage of the converted units be made available for persons of low or moderate income. The Marin County ordinance states that its Planning Commission may require a reasonable percentage of converted units to be reserved for persons of moderate income. Orange County stipulates that where "affordable" rental units are to be converted, and there are less than 25 percent of "affordable" rental units in the area, at least 25 percent of the units for sale in a particular project must be reserved as affordable units.

San Francisco has the oldest and most detailed set-aside arrangements. The San Francisco ordinance requires that in converting a building of five or more units, the converter must provide a 10 percent set-aside of units for rental or purchase by low- and moderate-income households (or retain the number of existing low- or moderate-income units, whichever is greater). 60/ If the units are to be retained as rentals, the rental rate should remain at the same level as at the time of the application for conversion, or the maximum rent within

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60/ A converter in San Francisco has two alternatives (discussed in the next section on replacement housing) to the above percentage set-aside in a conversion project in meeting the city's desire to preserve low- and moderate-income housing.

low or moderate income levels, whichever is lower. 61/ Such rental units must remain in the low- and moderate-income housing stock for 20 years, unless sold during that time under the following procedure. If the units are to be sold, they must be offered at prices which do not exceed two and one-half times the median income of low- or moderate-income families in the area. In order to ensure the units are maintained for low- and moderate-income households, the city has a right of first refusal to buy the unit at a sum equal to the original purchase price plus adjustments. 62/ The city must then sell the unit to other qualified low- and moderate-income households.

Replacement of Low- and Moderate-Income Housing. In addition to (and in lieu of) set-aside approaches, a few communities have sought to protect their rental stock by requiring converters to allocate a portion of newly constructed units for low- and moderate-income household use, pay a tax, or contribute to a public fund to be used for furthering low- and moderate-income housing opportunities. As an alternative to set-aside requirements, San Francisco allows a converter to construct an equal number of units which will be available for low- and moderate-income rental or homeownership, or pay into a City Housing Development Fund a sum of money equal to 10 percent of the difference between the total of proposed sales prices for units in the building and the sales prices of the units for moderate-income buyers. The Housing Development Fund can be used to reduce the costs of construction of new low- and moderate-income housing or expand homeownership opportunities through down payment assistance, co-ownership and/or "equity partnership" programs.

Los Angeles requires that $500 per unit be paid to the city for the development of low- and moderate-income rental housing. In Los Angeles County one percent of the purchase price of each unit must be deposited with the County Housing Authority to be used to develop lower-income housing. Oceanside requires two percent of the purchase price of each converted unit to be paid into a fund for the development of low income housing.

Policy Preferences of Local Officials

The majority of local officials (75%) feel that the state and Federal levels of government should remain neutral rather than encourage or discourage condominium or cooperative conversions. While local

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61/ Annual rent increases are generally limited to the residential rent component of the Bay Area Cost of Living Index.

62/ Adjustments include the costs of any improvements by the owner, plus a "market appreciation" based on the housing component of the Bay Area Cost of Living Index.

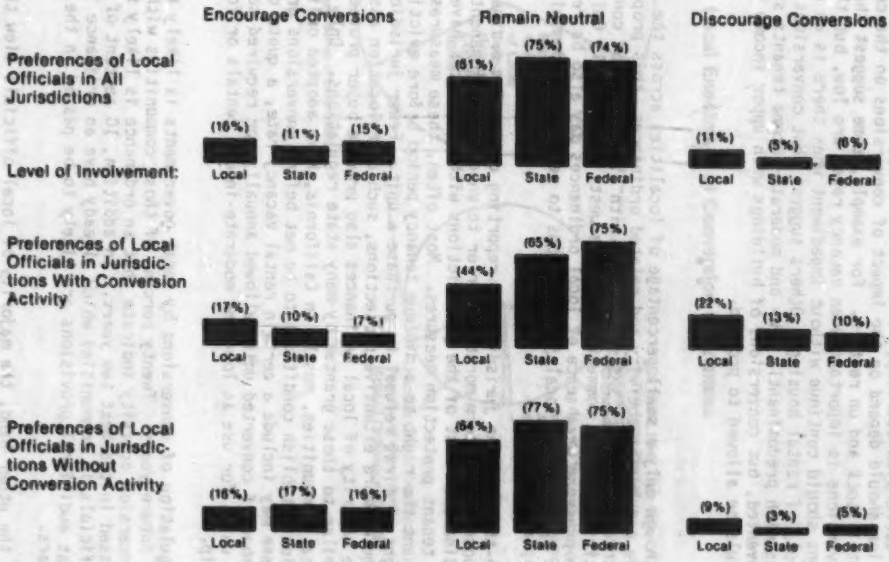
officials are more likely to favor an active role for local, rather than state or Federal governments, with regard to conversions, the majority (61%) still favors a neutral role at the local level in this area. (See table XII-6 App.) Of those who favor action by the local level of government, slightly more prefer efforts which encourage rather than inhibit conversions (16% versus 11%), while another 12 percent indicate the need for some other type of local involvement, such as monitoring of conversion activity.

Since some local officials interviewed in the survey represented jurisdictions in which no conversion activity has occurred, their responses were separated from those officials in areas with conversion activity even if such activity was limited. The policy preferences of these two groups of officials differ to some extent but not very significantly. Local officials whose jurisdictions have not experienced conversions are more likely to feel that state and local governments should remain neutral, while representatives of areas with conversions are more likely to believe that state and especially local governments should become involved in some way. About one-fifth of those representatives in areas with conversions favor local actions to discourage conversions compared to only nine percent of officials in areas without conversions. (See table XII-7 App.) However, there is no difference between these two sub-groups of officials in terms of the Federal role they preferred: 75 percent of both groups believe that the Federal government should remain uninvolved in conversion activity. (See table XII-6 App.)

Since 77 percent of all conversions nationally have occurred in the 37 largest SMSAs, officials in these larger metropolitan areas have the most experience with this phenomenon; therefore, their policy preferences are of particular interest. The majority, (about three-fourths) once again, prefers that the Federal and state levels of government remain neutral with respect to conversions; however, substantially fewer (51%) feel the same way about local government, although the other 49 percent do not represent a consensus. Their policy preferences are divided almost equally among three alternatives: encourage conversions (15%); discourage conversions (17%); or be involved in some other way (17%). (See table XII-8 App.) However, within these SMSAs, the policy preferences of local offlcals in central cities differ from those outside central cities, with the former being more likely to favor involvement which would encourage rather than discourage conversion.

Most of the local officials who favor government intervention to discourage conversions appear to be concerned with protecting the rights of tenants and unit buyers. Most of the policy options suggested by this group of officials center on restrictive conversion regulations, promoting a healthy rental stock and protecting those renter households affected by conversions. Those who favor government encouragement of conversions often propose government assistance

POLICY PREFERENCES OF LOCAL OFFICIALS FOR GOVERNMENT INTERVENTION IN CONVERSION ACTIVITY



Based on a National Telephone Survey of Local Officials.

to low- and moderate-income households to purchase converted units. Apart from program proposals which unequivocally encourage or discourage conversion activity, some officials suggest that government action should depend on the impact of conversions on the community's rental stock and on renters. For example, some suggest that limiting conversions is important when vacancy rates are low, but that conversions should continue without impediment when there is an adequate supply of rental housing. Others suggest that conversions of buildings with predominantly low- and moderate-income tenants should be prevented, but conversions of buildings with upper income tenants should be allowed to proceed.

* * *

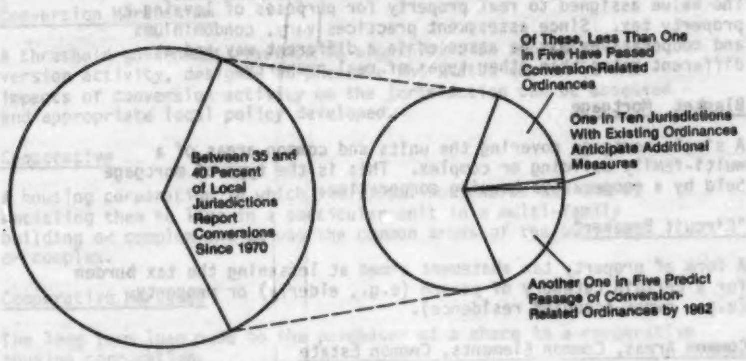
Although only a small percentage of localities across the nation have conversion activity and related ordinances, this proportion increases in large SMSAs, in those with high levels of conversion activity, and in communities in the west, particularly California. The presence or absence of local ordinances may also be related to the authority of local jursidictions to regulate condominiums and cooperatives.

One-third of the jurisdictions reporting conversion ordinances have imposed short-term moratoria prior to enacting a permanent conversion ordinance. Most of the jursidictions with ordinances have some form of tenant protection measures. Most often, these measures grant a tenant the right to a minimum tenancy period before eviction, and the right of first refusal to purchase a unit. Fewer jurisdictions require more extensive protections, such as relocation assistance. The majority of local ordinances also provide buyer protections similar to those granted by many state regulations. Only a few local communities, mostly in California, have adopted ordinances which establish conditions to be met before conversions are allowed; these may include a certain rental vacancy rate, a quota on the number of converted units allowed annually, or required set-asides of units for use as low- and moderate-income rentals or for homeownership.

Regulation of conversions by local governments is likely to grow in future years. Twenty percent of those communities with conversion activity indicate that an ordinance is likely to be passed in the next two years. In addition, 10 percent of officials in communities which already have an ordinance indicate that additional provisions are likely to be passed in the coming years.

On the other hand, the majority of local officials view the conversion process as a phenomenon which should neither be encouraged nor discouraged by any level of government. The minority who do favor some governmental role, however, prefer that it remain at the local level.

Local Enactment of Conversion Ordinances



Based on a National Telephone Survey of Local Officials.

GLOSSARY OF TERMS

Appreciation

An increase over time in a property's market value. Appreciation excludes income from rents that may have occurred or been generated by the property.

"As Is" Conversion

Conversion to condominium or cooperative ownership accompanied by no or few renovations, such as painting of common areas and landscaping.

Assessment, Tax Assessment

The value assigned to real property for purposes of levying a property tax. Since assessment practices vary, condominiums and cooperatives may be assessed in a different way and at different rates than other types of real property.

Blanket Mortgage

A single mortgage covering the units and common areas of a multi-family building or complex. This is the type of mortgage held by a cooperative housing corporation.

"Circuit Breaker"

A form of property tax abatement aimed at lessening the tax burden for a certain category of person (e.g., elderly) or property (e.g., owner-occupied residence).

Common Areas, Common Elements, Common Estate

Those portions of a condominium or cooperative building, land, and amenities owned by the condominium association or cooperative corporation for use by all unit residents. Included are hallways, roofs, stairways, main walls, parking areas, and social and recreational space. The operation and maintenance of the elements is shared by all unit owner or shareholders.

Community Development Block Grant ("CDBG")

A program under which HUD awards funds each year to eligible local governments to conduct a wide range of community development activities, such as neighborhood development and housing rehabilitation. Spending priorities are determined at the local level, but the Housing and Community Development Act enumerates general objectives. Communities are required to estimate lower income housing needs and to show how these needs will be met in their CDBG grant application to HUD.

Condominium

A multi-family building or complex or unit within such a property. Units are owned by individuals who may either live in them or rent them to others. At the same time the unit is bought, the owner acquires a proportionate interest in the common areas and voting rights in the condominium owners association.

Conversion

A change in the legal form of a multi-family rental property from single to multiple ownership. The change is made by filing a legal declaration, master deed, or subdivision application to the appropriate government body. After any necessary approval is received units in the condominium or membership shares in the coopertive may be sold.

Conversion Moratorium

A threshold government response to significant or impending conversion activity, designed to preserve the status quo while the impacts of conversion activity on the jurisidction can be assessed and appropriate local policy developed.

Cooperative

A housing corporation in which individual households own shares entitling them to live in a particular unit in a multi-family building or complex and to use the common areas of the building or complex.

Cooperative Mortgage

The long term loan made to the purchaser of a share in a cooperative housing corporation.

Cooperative Corporation

A legal entity that holds title to and controls a cooperative building or complex. Shareholders collectively govern the cooperative and generally occupy units in the cooperative.

Declaration of Condominium

A legal document filed with a state or locality containing conditions, covenants, and restrictions governing the sale, ownership, use, and disposition of a property under the applicable state or local condominium law. In many instances, the filing of this document is legally all that is required to convert a rental property to the condominium form of ownership. Also known as "Master Deed."

Depreciation

A presumed decline in the value of real property or other asset as determined by a legal formula. This loss of value may reduce the property owner's income tax liability. The rate at which a property's actual value increases (appreciates) or decreases (depreciates) may be quite different from the tax rate of depreciation.

Disclosure

The provision of detailed information about the legal, financial, and physical condition of a converted property by the developer prior to the execution of a binding commitment for sale of a unit. Some condominium or cooperative regulations require disclosure in an effort to protect unit purchasers or shareholders.

Discount

A reduction in the offering price for a condominium unit or cooperative share frequently offered tenants in a building or complex to be converted.

"Empty Nesters"

People whose children no longer share a home with them.

End Mortgage

The long-term loan made to the purchaser of an individual unit in a condominium.

Equity

The difference between the current market value of a property and the value of any claims or liens against the property.

Federal Home Loan Mortgage Corporation (FHLMC)

(Also referred to as "Freddie Mac" and "The Mortgage Corporation.") An organization chartered by Congress in 1970 to assist in the development and maintenance of a secondary market in conventional residential mortgage loans. FHLMC buys mortgages, primarily from savings and loan associations and resells them in the secondary market. A set of standards principally related to the condition of the converted condominium must be met before FHLMC will agree to purchase individual mortgages. FHLMC does not purchase cooperative mortgages, but the 1979 Amendments to the Housing and Community Development Act of 1974 authorize FHLMC to study the feasibility of purchasing such mortgages.

Federal National Mortgage Association (FNMA)

(Also referred to as "Fannie Mae.") Originally created by the Federal government in 1938 to assist the Nation recovering from the Great

Depression, FNMA is now a privately-owned corporation operating in the public interest. FNMA's role in the secondary mortgage market is to borrow money from the capital markets when mortgage money is tight and use the funds to buy mortgages, primarily from mortgage banks. FNMA standards must be met before it will purchase mortgages for converted condominiums.

Graduated Payment Mortgage

Under this type of mortgage, the mortgagor makes low monthly payments for the first few years of the mortgage term. The payments gradually increase for the next few years until they reach a level where they remain for the balance of the mortgage.

Homestead Exemption

A form of tax relief aimed at reducing the property tax burden to a specific category of persons, usually to encourage homeownership. Functions somewhat like a direct grant of funds in that the same amount of money is offered as a tax relief.

Interim Financing

A form of short term financing (usually ranging from one to three years) used by a developer to pay part of the cost of acquiring and renovating a building and retiring any existing mortgages. The loan is repaid as individual converted units are sold.

Investor-Owners

Condominium or cooperative owners who buy units or shares for investment purposes rather than residences and usually expect future appreciation on the unit or share. An investor-owned unit is typically retained as a rental.

Joint Venture

A partnership form of business in which each co-venturer contributes capital and/or expertise for a particular undertaking in return for a share of profits.

Life Tenancy

Refers to a provision of law under which lifetime leases are offered to specific groups of tenants, usually the elderly or handicapped.

"Limited Equity" or "Low Equity" Cooperative

A cooperative housing corporation whose bylaws regulate the resale value of membership shares. The resale price is determined by a formula which considers the original down payment plus increments for inflation, improvements to the building and unit, and a small percentage of the blanket mortgage covering the cooperative building.

Limited Partnership

A partnership form of business composed of one or more general partners and one or more limited partners. The general partner(s) manages and controls partnership affairs, while the limited partner(s) is a passive investor with no control over the partnership.

Loft Conversion

A change in a building's use from non-residential to residential purpose -- either as a rental, cooperative or condominium.

Management Fee, Maintenance Fee

A charge usually paid each month by each condominium unit owner. The fee covers the cost of services provided by the firm which manages the property, the property's maintenance, and any utilities not individually metered. In a cooperative, the charge also includes a pro rata payment toward the blanket mortgage's monthly principal and interest.

Master Deed

See "Declaration of Condominium"

Mortgagee

The financial institution holding the interim, end, or blanket mortgages on a condominium or cooperative.

Mortgagor

The individual or entity responsible for the repayment of an interim, end, or blanket mortgage.

National Consumer Cooperative Bank

An independent bank established by the Federal government in 1978 to provide technical assistance and mortgage loans to consumer cooperatives, including housing cooperatives. Initially, the Treasury Department and borrowing cooperatives will own stock in the bank; eventually full ownership will be held by the cooperatives.

Neighborhood Strategy Area

A neighborhood designated by a local government for intensive community development activities financing by Community Development Block Grant funds. The local government must present a comprehensive strategy to HUD for upgrading and stabilizing the neighborhood.

Offering Plan

Information available to prospective purchasers which typically includes the declaration, bylaws, articles of incorporation of the association, management contracts, budget information, recreational leases, and any encumbrances, easements, liens or other matters affecting title. Designed to serve as a "disclosure package" and protection for prospective buyers.

Owners Association

A group comprised of unit owners, and sometimes renters, which conducts the affairs of a condominium through an elected board of directors. State laws generally specify the manner in which control of the association is passed from the developer to the owners. Usually this occurs after all units are sold and a high proportion of the sales closed. Association bylaws specify items such as terms, power and authority of the board of directors as well as the rights and powers of tenants.

"Pipeline" Conversions

Refers to any stage in the conversion process prior to the actual marketing of converted units. Estimates of conversion volume often include such "pipeline" projects which have not yet fully completed the conversion process.

Proprietary Lease

An occupancy agreement under which a cooperative member has an exclusive right to occupy a particular unit; the lease also specifies the rules and regulations governing the occupancy and obligates the member to pay a proportionate share of the principal and interest on the blanket mortgage, operating and maintenance costs, and other expenses related to the operation of the cooperative.

Real Estate Investment Trust (REIT)

A mutual fund which borrows funds in private capital markets. The proceeds are used to make construction and development loans, long-term mortgage loans, and loans for purchasing income-producing real estate.

Revitalization

A substantial improvement in the condition of land and structures in a deteriorated area. The initiation of the process tends to stimulate further investment in the area and may result in increased market values of the land, housing, and other structures in the area.

Right of First Refusal, First Right to Purchase

A provision in a law or real estate agreement giving a tenant an opportunity to buy a unit to be converted, or a tenant group the opportunity to buy a building to be converted, before the unit or building may be offered to other purchasers. Offers to buy from tenants or tenant groups must be made within a specified time period, usually 60 days.

Secondary Mortgage Market

An informal network in which financial institutions making mortgage loans sell the mortgages to public and private institutions (such as FNMA or FHLMC) which either hold them or sell them to another participant in the capital market. The purposes are (1) to enable loan originators to liquidate the mortgages and use the proceeds to make further loans; and (2) to hold capital during times of loose money which can be released when money is less plentiful.

Section 203(n)

A provision of the National Housing Act of 1934, which permits HUD to insure mortgages of households buying shares in cooperative housing corporations. To be eligible for the insurance the cooperative's blanket mortgage must also be insured by HUD.

Section 213

A provision of the National Housing Act of 1934 which permits HUD to provide mortgage insurance for loans to finance the construction, acquisition, or rehabilitation of housing cooperatives and for loans to households purchasing shares in a housing cooperative.

Section 213(i)

A provision of the National Housing Act of 1934 which permits HUD to provide mortgage insurance to finance housing cooperative conversions or to refinance an existing cooperative mortgage.

Section 221(d)(3)

A provision of the National Housing Act of 1934 permitting HUD to provide mortgage insurance for loans to finance the construction or rehabilitation of cooperatives containing five or more units.

Section 245

A provision of the National Housing Act of 1934 which permits HUD to insure mortgages to facilitate early homeownership for households that expect their incomes to rise substantially. This is known as the "graduated payment mortgage" program.

"SMSA" - Standard Metropolitan Statistical Area

A designation by the Federal Office of Management and Budget which applies to counties (or towns in New England) with at least one central city of 50,000 or more residents and any contiguous jurisdictions that are socially or economically integrated within the central city.

Special Assessment

A one-time surcharge levied on condominium unit owners or cooperative shareholders as approved by vote of the condominium association or the cooperative corporation. The proceeds finance any major unforeseen expenditure, for example, a new roof.

Stock Cooperatives

A cooperative housing corporation whose participants are stockholders whose shares entitled them to a proprietary lease of a specific dwelling unit located on the property owned by the corporation.

Substantial Rehabilitation

Improvements and repairs to a property that usually involve considerable cost. These may include major repairs to or replacement of mechanical systems (e.g., wiring or plumbing) or a structural feature (e.g., roof). Work may also include restructuring of the building's interior.

Tenure Status

A classification of housing units in relationship to their occupants, e.g., owner-occupied, renter-occupied.

"Third Party" Converter

A developer or converter who has no relationship to the converted property prior to the beginning of the conversion process, i.e., one who was not the landlord and did not assist a tenant organization in attempts to convert the building.

Time Shares/Time-Shared Ownership

The exclusive right to occupy a unit in a real estate develoment for a specified period of time each year. Time shared ownership is essentially a vacation or resort concept where the primary motivation for purchasing the right is personal use rather than investment.

Turnover Rate

The proportion of rental housing units in a specific area changing occupancy in a given time period. The rate is usually expressed in annual terms.

Uniform Condominium Act (UCA)

Developed by the National Conference of Commissioners on Uniform Laws to unify and modernize the law of condominiums. Approved by the American Bar Association in the winter of 1970; promulgated to every state for its considertion.

Vacancy Rate, Rental Vacancy Rate

Estimated percentage of the rental housing units in a locality or region that are vacant and available for rent at a particular time. The estimates are usually based on a sample survey.

RECENT REPORTS BY THE DIVISION OF POLICY STUDIES

Preliminary Findings from the Field Study: Report of the Task Force on Multifamily Property Utilization (August, 1977)

Estimation of the types and frequency of problems facing financially troubled HUD-insured subsidized multifamily housing projects; assessments of the adequacy of project income, HUD management, and project management.

Problems Facing Financially Distressed Multifamily Housing: A Field Study of the HUD-Insured Unsubsidized Inventory (December, 1978)

Estimation of the types and frequency of problems facing financially troubled HUD-insured unsubsidized multifamily housing projects; assessments of program and market factors, project development and management by developers, owners and managers, and HUD development and management practices.

Problems Affecting Low-Rent Public Housing Projects: A Field Study (January, 1979)

Estimation of the number and types of public housing projects believed to be in "troubled" condition; assessments of the financial, physical, managerial and social problems facing public housing.

Housing for the Elderly and Handicapped: The Experience of the Section 202 Program from 1959 to 1977 (January, 1979)

Evaluation of the design, administration, cost and performance of HUD's program of direct loans to nonprofit organizations for the purpose of developing and operating multifamily housing projects for elderly and handicapped persons.

A Survey of Citizens' Views and Concerns about Urban Life (February, 1978)

Report on a national, cross-section survey of 7,074 Americans in cities, suburbs, towns and rural areas to record thir past experiences, their present attitudes, and their predictions about the future of the nation's cities and of their own communities.

The 1978 HUD Survey on the Quality of Community Life: A Data Book (November, 1978)

Compendium of responses to HUD's 1978 survey on how Americans view the conditions and problems of their communities, containing frequency tabulations of the answers to each survey question and breakdowns for region, location, occupation, marital status, age, education, income, tenure, race/ethnic group, sex and local census data.

Gautreaux Housing Demonstration: An Evaluation of Its Impact on Participating Households (December, 1979)

Evaluation of a demonstration in the Chicago area designed to explore metropolitan-wide housing opportunities for low-income persons; describe the characteristics of participating families; assess the extent of racial and economic dispersion resulting from the demonstration; and compare participants with eligible non-participants and with participants in HUD's Section 8 Existing program.